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Lloyds Bank Review



JULY 1954

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The Bank publishes from time to time in this REVIEW signed articles by exponents of different theories on questions of public interest. The Bank is not necessarily in agreement with the views expressed in these articles. They are published in order to stimulate free discussion and full inquiry.

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The Way We Live Now

By Honor Croome

SO much has been said and written, of late years, about "the plight of the middle classes", that the subject might well appear exhausted. The middle classes, it may be argued, have made far too much noise already about their troubles. They are not hungry, nor ill-clad, nor deprived by poverty of medical attention; they do not have to live in slums nor to see their children grow up physically and mentally stunted; they have merely had to surrender the notion of an inalienable claim to gracious living—a claim whose enforcement, it is asserted, necessarily imposed on others those primary evils which they still escape. Even if this static view of inequality is rejected, even if the minority's "unjustly" high standards are recognized as tending to that material progress on which the abolition of primary poverty depends, further rehashing of middle-class grievances may seem superfluous. The case has been made often enough; to a recognizable degree it has even been conceded. The levelling process has slowed down; the burden of taxation has, however slightly, been lightened—a fact welcome not only in itself, but as evidence that concern for the non-wage-earner is no longer politically taboo; the Report of the Royal Commission on Taxation holds out the hope of further relief; above all, the complex of controls which was so vigorously used to impose on all classes the standards and values of the urban wage-earner has been, with surprisingly little protest, so far dismantled that one may doubt whether anything but another war would permit its rebuilding. Compared with what seemed probable some five years ago, the prospect is reassuringly brightened.

Yet the very fact that the class war has—for the moment—been called off, that the decline of the middle classes has apparently levelled out, demands an effort of reassessment. It is more possible today to see Britain's social revolution in perspective, to begin to distinguish its permanent effects on the social structure from those due to transition as such or to the manner and the spirit in which transition was effected. Needless to say, a much longer perspective will be needed for any lasting historical judgement; and the fortunes of that ill-defined minority known today as the "middle class" (or,

significantly, "classes") will form only a small part of the historian's subject matter. There may be some use, however, in an interim speculation on those fortunes and their bearing on social development in general.

No one is likely to attempt—in emulation of the studies of working-class poverty of fifty or sixty years ago—an exhaustive survey of Reduced Circumstances. The need for such a survey is not so dramatically obvious, and its difficulty is much greater. Primary poverty is reasonably homogeneous; one desperately poor family is very like another. The merely hard-up offer much more recalcitrant material to research, by reason both of the wider variety of their tribulations and of the lack of any single objective standard by which to judge them. In fact, virtually no such research has been undertaken. In 1949 Mr. Roy Lewis and Mr. Angus Maude, in their admirable *English Middle Classes*, lamented this deficiency and drew on the results of a pilot enquiry of their own—their material being no more than fifty or sixty budgets selected, of necessity, without benefit of scientific method. In the last few months the *Manchester Guardian's* pamphlet on *The Middle Class Way of Life* has offered a similarly inadequate but highly suggestive sample.

Supplemented by observation, these budgets underline two facts familiar enough at the commonsense level but apt to be overlooked in weightier discussions either of income distribution or of absolute standards. The first is the fact that patterns of expenditure, ways of life, possession of a disposable margin over necessary commitments, priorities in general, are only partly settled either by the absolute amount of an individual income or its ranking in the national scale. The second fact is that distinctions of "class" by no means invariably correspond to distinctions of economic circumstance.

"Class" is of course a rag-bag-word and trigger-word in one. It is partly a matter of totem and taboo, shibboleth and recognition-signal, which has provided material for social comedy—not to speak of social acerbity—in every age, but particularly in periods of rapid change. In part it is, admittedly, an economic grouping—indeed, on the time-scale of several generations one may fairly agree to give the economic factor priority. But it is very largely a matter of just those differences in taste and habit, in the preferred pattern of living, which demonstrably do not depend entirely on the level of income. The totem-and-taboo aspect, however fascinating, is not to

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be studied here, though it has its economic importance, especially in the field of education. Nor is the relation between standard and incentive : though much could be said about the danger of assuming that people who work like demons, even for diminishing reward, to save their way of life from collapse, would continue to do so in order to embellish with second-best compensations the radically different way of life which they must accept when the collapse is accomplished. It is the standard of living as actual nourishment, not as effort-inducing carrot, which is the business of this essay.

The analogy of food is worth pursuing further. For food, like the standard of living in general, may be regarded either as an end in itself (a view admittedly unfashionable in societies haunted by Puritan misgivings about pleasure, but not elsewhere considered unworthy) or instrumentally, as fuel for the human machine. In either aspect, the merits of any diet depend less on sheer quantity, above a loosely-determined minimum, than on the balance of its ingredients. Herring or salmon, apple or peach, gypsy stew or chef's masterpiece—a diet may score high or low, under both heads, at any level from the crudest to the most luxurious, according to whether its components do or do not harmoniously supplement one another. One does not compensate for vitamin deficiency by consuming second helpings either of blancmange or of the most elaborate confections of spun sugar, nor for lack of seasoning by substituting asparagus for cabbage. Similarly—and with similar reservations concerning a minimum varying widely from culture to culture—standards of living must be judged not only by scale and elaboration but by the balance and harmony of their ingredients, by the extent to which the simple or complex pattern of material enjoyments corresponds to the individual's pattern of material needs. (And material needs include, of course, the necessary material underpinning of needs which no one would think of calling material in themselves.)

These platitudes would hardly be worth rehearsing were it not that fiscal policy, and the theory of economic welfare on which that policy is partially based, takes a purely quantitative view of incomes and standards of living. This is a view which, ignoring social factors and the patterns of spending connected with these, has contributed very considerably to the past and current troubles of the middle classes. Incomes are tacitly assumed to be as homogeneous, and as interchangeable, as so

many gallons of water. No distinction is drawn between two quite distinct concepts: on the one hand, the flow of general buying-power which, day by day and week by week, the individual can lay out according to his personal tastes and the needs of the moment; on the other hand, the standard of living which, enjoyed or endured day by day and week by week, is the product not only of current expenditure but of expenditures carried out last month, last year, half a lifetime ago. Not only are memory and habit assumed away, and with them all those ensuing differences in psychological and even physiological reaction which (whatever be said of innate diversity) constitute unmistakable differences of need at least between adults alive at any given period; a clean sweep is also made of all the indivisibilities and continuities which in real life do so much to determine whether the standard of living can be satisfactorily balanced at a new level.

The representative man of welfare economics wakes every morning stark naked in a vacuum and—presumably plotting an indifference map in the air—proceeds to conjure up, in suitable proportions, the components of whatever standard of living his total income makes possible at current prices. His thousandth pound is interchangeable with all other pounds, but less valuable, subjectively, than the five hundredth—even as the last glass of water quenches a less urgent thirst than its predecessors; his individual needs can, like individual requirements of fluid intake, be safely, even if unprovably, assumed to be the same as those of his fellow vacuum-dwellers. There follows, with due logical smoothness, the theorem that welfare is maximized by equality; a theorem buttressed on the one hand by some of the noblest, and on the other by some of the basest, of human emotions and, as applied to the habitless, possessionless, totally uncommitted consumer-units of the welfare economist's abstract scheme, so reasonable that only considerations of incentive may properly be adduced against its full translation into practical policy.

Whatever may be true of the very long run in which the generations succeed one another, tastes and conventions change, possessions crumble and are replaced and the pattern of living reshapes itself, this view of the standard of living manifestly does not correspond to the practical realities faced by non-vacuum-dwelling humanity—and particularly by a middle class bidden to count its blessings on an income which, even if reduced, is still in general well above the national average.

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So far from being a homogeneous mass, each individual's—or, more realistically, each family's—standard is made up of a highly organized interweaving of complementary satisfactions. It is composed partly of readily variable elements purchased day by day and week by week—food, tobacco, entertainment—and partly of elements accumulated and used over long periods, elements which have been mutually adapted and built into a single structure of interdependent parts, requiring not only to be kept intact but to be serviced and to have its running costs met.

Within limits, this structure can be enriched and elaborated or simplified and pared down. It cannot be treated as so much homogeneous stuff of which any amount can be chopped off or poured away without affecting the quality of what is left. It is, on whatever scale, a going concern, with a going concern's dependence on the proper relationship of its parts, a going concern's limited capacity to make sudden breaks with its past, and a going concern's superiority to the total scrap-value of its assets. The comparison with business must not, admittedly, be pushed too far. The components of a family standard are less specific, less complicatedly adapted to one another, than the contributing factors of a firm's production; and the life-cycle of family generations, offering naturally recurrent opportunities for fresh starts and clean slates, has no counterpart in business. Nevertheless it seems odd that economists, familiar with the differences between long-term and short-term supply conditions or fixed and variable costs, and habitually allowing, in advanced analysis or practical comment, for the immobilities, indivisibilities, frictions and lags which the most elementary textbooks initially assume away, should refuse to recognize any corresponding complications when they turn from the organization of industry to the organization of daily life.

All this may seem irrelevant to the future, concerned merely with the troubles of transition, whether psychological—and therefore bearing hard only on the imperfectly adaptable members of a single generation—or arising from eventually remediable indivisibilities and eventually terminable commitments. If the transition is towards a lastingly better society they represent a small price for the improvement. An incomparably higher price was paid by a far larger section of society—the uprooted, dislocated and unconsidered artisans and peasants—for the undoubted benefits of the Industrial Revolution; it was an unnecessarily high price (thanks largely

to the interpretation set upon the teaching of the classical economists) but it would have been formidable in any case—even, indeed, had there been an uninterrupted rise in *measurable* standards of consumption. If the comparatively minor hardships and dislocations endured by the middle class over the last decade are to be regarded merely as the temporary discomforts—falling, for once, on the broader shoulders—of adjustment to a new and better way of life, it is hardly worth while to dwell on them.

In the perspective of history the peculiar woes of the domestically inexperienced tackling chores in houses designed for ample staff, or of the ex-motorist left high and dry at a strategically impossible base, and the injuries to dignity felt by individuals to whom standards and standing are identical, are a very small matter. Time, after all, brings adjustment. New houses—and adaptations of old ones—are designed to be owner-driven, the new generation acquires the necessary domestic skills as a matter of course, the ex-car-owner settles near a bus-route and acquires local interests, the association of caste with bespoke tailoring loses its imperative force, and the proverbial wisdom which holds both that you can get used to anything and that what you've never had you never miss comes into its own. No longer hampered by sumptuary controls, progressively released, as time goes on, from the commitments inherited willynilly from the past, the middle-class citizen can freely choose whichever new cut for his coat best suits his diminished cloth and his particular tastes.

Indeed—so it may reasonably be held—he is a good deal more free than he was twenty years ago. War and adversity have winnowed much conventional chaff out of the middle-class standard of living; in particular they have enormously diminished that element of competitive ostentation which Veblen saw as the very hallmark of bourgeois *mores*. The middle class today—duffle-coated or tailored, bowler-hatted or bare-headed, according to choice—is if anything less concerned with appearance than the wage-earners. “Bare legs, and no hat, and the baby not at all dainty. She doesn't seem to know what's expected of a vicar's wife—” thus, in Miss Marghanita Laski's fiendishly well-observed *The Village*, the voice of respectable working-class opinion. There are probably no more working-class houses flaunting a TV aerial without a set attached than there were coal-filled baths to justify an earlier myth; for that matter it is simply untrue that TV is a working-

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class rather than a middle-and-upper-income-group luxury. But the fact that the TV legend (in the dummy-aerial version or otherwise) has supplanted the coals-in-the-bath legend is a significant pointer to social change—change from which the middle class, once so painfully obsessed with the correct thing and keeping up with the Joneses, is by any reasonable standards the gainer.

Yet when the dust of transition has settled, when its specific discomforts have been left behind and its countervailing gains have been reckoned, there remains—even on the optimistic assumption that the class war will not be renewed at the next swing of the political pendulum—considerable cause for doubt and disquiet. Doubt, because a modern society without a middle class in the sense hitherto familiar is an unprecedented experiment in social ecology; disquiet, because those considerations of indivisibility in the elements of the standard of living which are crucial in periods of rapid transition remain to a significant extent, even when adaptation has done its work, important for the future. Comparisons of misfortune with tragedy, or of down-grading with liquidation, are beside the point. It is long-run implication, rather than the assessment of current discomforts, which is in question.

It has happened before now, in other countries, for the middle classes to be ruined: by inflation or by revolution. The troubles of the British middle class are mild compared with the disasters which, in the course of the twentieth century, have been heaped on the French, and still more on the German, *bourgeoisie* and professionals, playing a major part in producing moral paralysis in France and collective dementia in Germany. Only in Britain, however, have matters been deliberately so arranged that there shall be no revival; no rebuilding, by the efforts, the thrift and enterprise of a new generation, of private competences, no replacement of the victims of special circumstance by successors starting, perhaps, from quite different origins but winning and retaining the rewards of special ability. Russia has deliberately reconstituted a privileged *élite*; in Britain, the new-style middle class is to be, almost entirely, an extremely petty-*bourgeoisie* composed of superior white-collared technicians, enjoying over the ordinary operative a differential little larger than that which once distinguished a boilermaker from a navvy.

It is, indeed, unlikely that any ingenuity will prevent a few people getting very rich and a few more becoming

prosperous. There is always gambling ; there is always sheer business luck ; in every profession there must be a few plums ; while any private capital survives there is always the option of living on it, high, wide and handsome ; bachelors and childless couples may do pretty well even today ; there are multiple-salary as well as multiple-wage families ; and a sprinkling of individuals—besides those whose standards are largely a matter of untaxed business expenses*—may be expected to benefit accordingly. What has disappeared is the prospect of prosperity which shall not be exceptional, freakish, an uncovenanted stroke of good fortune. The able novice in professional or business life is today in much the same position as, in the days when the guilds were crumbling, the industrious apprentice to a craft ; the prospect of rising, in the normal course of a hard working career, from journeyman to master (or, in modern terms, from "superior white-collared technician" to the standards of, say, a pre-1939 country solicitor, departmental manager, moderately senior civil servant) has vanished from his scheme of things. Barring lucky accidents, a superior technician he will remain.

Here, too, historical precedent is tempting but deceptive. Whole classes have been not merely hard hit but permanently, as it were, *déclassées*, before now. The disappearance of the independent master craftsman or peasant proprietor from the English scene, socially regrettable perhaps, was (*pace* the Distributists) an economic necessity. Why worry if the traditional middle classes are, today, similarly disappearing or being transmuted into another shape ? The answer lies in the diametrically different relationship between the classes in question and society as a whole. The master craftsman and peasant disappeared, in the last analysis, because they were functionless in the modern economy. Nothing could be less truly said today of the middle class, the professionals, the managers, the administrators. The modern economy, the Welfare State itself, demands and relies upon their services in ever-increasing quantity. Its development—indeed its survival—depends on a growing supply of men and women possessing, and capable of retaining and applying throughout their working lives, the qualities of high intelligence, inventive imagination,

* " They shall be simple in their lives
And splendid in their public ways "

—Socialist hymn, *These Things Shall Be*.

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integrity, initiative, co-operative leadership. They must possess the ability to link the particular with the general, to interpret their own activities and—a point more and more important as special expertise increases—to relate them continuously to wider human purposes. These urgently and increasingly needed qualities far transcend those of the superior white-collared technician; and it is blindly unrealistic to pretend that they are generally fostered by the superior white-collared technician's way of life. The massive social and economic down-grading of precisely that group whose abilities society, at the moment, most needs, is a historically unprecedented device—and surely an unpromising one.

This conclusion may be challenged. Admitting that the transition has been uncomfortable, admitting that some professional groups have fared disproportionately badly and are due for a levelling up, admitting that legitimate expectations, such as those of contributors to pension funds and insurance schemes generally, have been disappointed in a way which should be avoided for the future, admitting that some differential is needed to induce potential professionals to undergo the necessary training—admitting all this, do the middle classes really need standards more than very moderately superior to those of the skilled artisan? Have not their claims, in the past, been pitched inordinately high? If questions of incentive be ruled out (and even apart from public spirit, or a taste for using rather than neglecting one's special abilities, half a loaf is better than no bread and will always attract takers) cannot the middle classes use their due margin of economic advantage to reproduce the most valued features of their way of life on a merely diminished scale?

This is, unfortunately, where the question of indivisibilities reassumes importance; the relation, not rigidly fixed indeed but not indefinitely elastic, between the scale and the structure of the standard of living. If a physiological parallel may be allowed, a mammal may be as large as a whale or as small as a shrew-mouse, but if no creature is larger than a bumble-bee there will be no mammals; the physical brain can attain a variety of sizes, but below a certain minimum size its convolutions and internal connections cannot develop sufficiently for rational thought. Analogies can, it is true, never be more than suggestive; and it is not possible to put one's finger on a certain unmistakable structure of spending or way of life, identify it as essential to the maintenance of what is valuable

in middle-class quality, and similarly point to the critical magnitude of total income below which no skill in adaptation will preserve it.

Nevertheless, the notion of a critical magnitude does correspond to a social and economic reality. To take the single instance of housing: a professional family may preserve the essential quality of its life as well in eight rooms as in eighteen, but if its income will not run to accommodation in which uproarious small boys, studious adolescents and parents bent on rational and consecutive conversation with their peers can keep off one another's toes, then that quality is irretrievably impaired—and this remains true whether or not the family in question is simultaneously trying to enjoy such less indivisible adjuncts to civilization as well-designed furniture and fabrics. (A striking feature of the *Manchester Guardian* budgets was the enormous proportion, sometimes rising to nearly half of net income, spent on houserom.) One may live very well in a council house; but not according to the middle class's essential standard of privacy and peace.

Or there is the question of leisure. That the man who carries heavy responsibilities should not also have to carry coals ought to be obvious. Whether they are carried for him by a domestic servant or whether the carrying is made unnecessary by a self-stoking boiler is economically irrelevant; but if his income will stretch to neither (and if he is insufficiently tough to sit back and let his presumably expendable wife do it all) his functions as a bearer of responsibility will be impaired—and will not be perceptibly restored by his ability to buy rather better shirts, and patronize rather better cinema seats, than does the artisan over whom he enjoys a moderate income differential. For "carrying coals" one should of course read also washing up every evening, decorating or lawn-mowing through every week-end. Those and similar activities can in moderation be a salutary counterweight to the brain-worker's preoccupations; but when they take up virtually all his "leisure", or reduce it to unusable snippets, they do more than almost anything else to grind him down into a superior technician. (If the professional is a woman this argument applies with immeasurably multiplied force.) Once income sinks below the critical magnitude which permits genuine and creative leisure, no skilful rearrangement of the remaining components of the standard of living can preserve its middle-class quality.

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One really obsessive nightmare of many middle-class families—education—can have only perfunctory notice here, although it exemplifies both the relationship of pattern and scale and—since the abolition of fee-paying grammar-school places—the discontinuity between what the prosperous can afford and what the perhaps only slightly less successful must put up with. It is worth speculating—but not here—on the means by which the excellence and independence of the public schools might be preserved and, at the same time, the burden on their clients be made less crushingly heavy. Meanwhile, schooling constitutes the most massive discontinuity of all. The luck of locality and of the eleven-plus examination may mitigate it much or little; by and large, however, the choice is between the very best and—as soon as income shrinks below the critical level—something costing nothing at all but so much less good that even the most convinced Socialists avoid it for their children as long as they have two cheques to rub together.

Other ingredients of the middle-class standard may, indeed, be whittled down indefinitely without causing it to collapse, however meagre and austere the result. One can borrow books from the public library; one can take a foreign holiday once in ten years, and acquire a work of art once or twice in a lifetime; one can walk and dig instead of playing tennis or golf; one can stick to a Spartan diet; one can eschew alcohol, tobacco, and self-indulgence in general—perhaps more easily than the artisan whose less interesting work, and comparative lack of interior resources, demands passive relaxation.

It would be a bleak world, however, in which high thinking (or administrative expertise, or major managerial responsibility, or professional skill) was inseparably linked with the very plainest of plain living. And it would be a paradoxical world in which the only women who could afford pretty hats, and the only men who could afford to drink with their friends, were those whose major needs were subsidized or provided free by the State. That particular form of topsy-turvydom is not yet, indeed, generally in sight, but one has only to look at the *Manchester Guardian* budgets—or indeed to use one's eyes—to see advance samples: to notice on one hand the carefree spending of those who, having no temperamental or vocational need for space, quiet, privacy and creative leisure, let alone excellence in education, have a margin to play with, and on

the other hand the desperate penny-pinching of those who, having grimly put first things first, must let the rest go.

Who has the "higher" standard of living? As a matter of scale, obviously the middle class—as the Left is never tired of pointing out. As a matter of balance, undoubtedly the wage-earner (in general; the large dependent family may still be in painful straits, but it is not representative). His preferred pattern of spending is compatible with the size of the income he receives; that of the middle class, for all but a tiny minority of the exceptionally fortunate, is at best distorted, at worst in course of dislocation and collapse.

Where, in all this, is social justice—the justice which seems so easy to define where all spending-patterns are broadly alike, where there are no indivisibilities, no discontinuities, no link between function and need, only the identical consumer-units studying indifference-maps in their vacuums? There can be, surely, no cut-and-dried answer. One may nevertheless conclude that if applied all round by some omniscient power, that magnificent slogan, "from each according to his ability, to each according to his need" would yield results at least as far removed from flat equality as from the random maldistribution of unregenerate capitalism.

Still less does a cut-and-dried answer look possible when one remembers that it is not only the middle class whose functions shape its needs and whose characteristic spending-pattern, derived from those needs, collapses when scaled down beyond the critical point. All societies are to some degree prisoners of their own standards. The more complex and closely-packed the society the higher, even for its humblest members, is the crucial minimum below which there ensues not the simple frugality of the peasant or the primitive but squalor and breakdown. Modern urban life requires, as a minimum, expensive decencies of housing, lighting, sanitation, which in simpler settings are optional. The specialization of firms and regions requires, as a minimum, expensive standards of transport and communication with which cruder economies can dispense. Modern technology and organization demand, as a minimum, education to a level whose expensiveness rises decade by decade. And the by-product of education is an expensive demand that diet, clothing, warmth, facilities for cleanliness, shall conform more closely to the physiological needs of full human development—while not only frail human nature but the stress and monotony of specialized, high-pressure

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mechanical work demand expensive anodyne, stimulus, and entertainment. Even if it were possible to pare away all incompetent mis-spending, competitive ostentation, advertisement-stimulated satisfaction of artificial wants and foolish and harmful self-indulgence, the crucial magnitude—the minimum size of income from which these demands can be met—would remain as genuine a datum of social arithmetic for the standards of the masses as for those of that key minority roughly labelled “middle class.”

These are considerations of expediency; and on grounds of expediency alone it can be strongly argued that, whichever standards fall short of what is needed for perfect function, those of the key minority should not—since any resulting shortcomings on their part will disproportionately damage the prospects of that dynamic progress on which the standards of all depend. Expediency, however, is an inadequate guide, as material progress is an inadequate aim. In the last resort the problem of relative standards is a problem of absolute values. On the one hand stands that excellence—not only in instrumental usefulness but in culture, learning, art, manners—which all ages have honoured; on the other, that all-embracing human solidarity which our age has, however imperfectly, begun to accept as an imperative. A society in which the claims of excellence and the claims of solidarity were perfectly reconciled would be a Utopia indeed. Yet a society in which the sense of solidarity should include, to a greater degree than in ours, a capacity to rejoice without envy at the excellence of a few, and in which excellence should include, to a greater degree than in ours, a peculiar sensitiveness in solidarity, is less impossible to conceive—and less discouragingly remote an ideal towards which men of goodwill, however inevitably differing on priorities, devices, expediciencies, and questions of degree, may work together in hope.

June, 1954.

HONOR CROOME.

The French Economic Problem

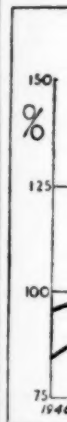
By Georges Rottier¹

THE present state of the French economy is something of a paradox to a detached observer. Taking into account the exceedingly heavy burden of European rearmament and our overseas commitments, short-term indicators point to an unexpectedly favourable situation. Most of the acute difficulties which we have had to face since the war have subsided. The 1954 budget has been voted in time and the deficit it envisages does not seem to entail any serious danger. Prices have been stable for nearly two years and there is no sign of inflation starting afresh in the near future. Industrial production, which had been marking time for many months, is resuming a moderate upward trend. The only significant short-term problem is the heavy and prolonged deficit in the current balance of external payments. French opinion has unfortunately never paid much attention to foreign trade; it is therefore easy for Ministers to show complacency in their Sunday speeches, and not to do much about anything during the rest of the week.

At the same time, one cannot help feeling that public opinion does not entirely share this complacency. The wave of strikes which affected most of the country last summer was the sign of a deep social *malaise* which has since extended to the peasantry. This *malaise* could, of course, result in great part from purely political factors or from shifts in income distribution which are not significant for our purpose. But it is enough to cast some doubts on optimistic conclusions drawn from the behaviour, during the last few months, of carefully selected indicators. In fact, the situation is satisfactory only within strictly defined limits. Given a certain policy—or lack of policy—and taking into account certain basic weaknesses in the structure of the economy, present results are better than one could reasonably expect. By any other standard, they are unsatisfactory. However, the very fact of having a breathing space, of being free from the constant worries we have known ever since the end of the war, is not insignificant. At last, we may be in a position to tackle more fundamental issues, and we may do so efficiently because what is going wrong has now been properly diagnosed.

¹ The author is Director of the London Office of the *Institut de Science Economique Appliquée*. The views expressed are purely personal and do not commit the *Institut*.

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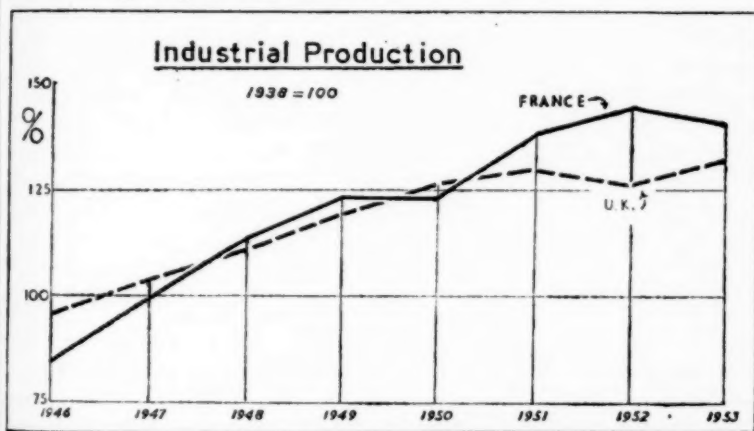
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ECONOMIC SURVEY 1951-54

Before indicating that diagnosis and suggesting possible remedies, it will be useful to survey briefly the course of economic affairs in France since the Korean crisis.

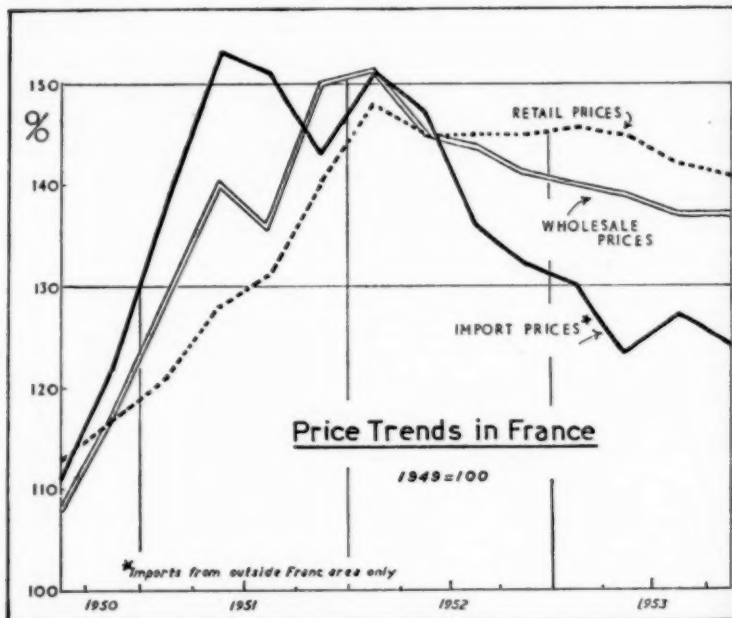
Inflation in the early post-war years—the index of wholesale prices increasing fivefold between 1945 and 1949—was the result of acute shortages in all sectors of the economy and was largely unavoidable. It was, furthermore, accompanied by a very high rate of economic progress. Intense capital formation, though it added fuel to inflation, considerably quickened the pace of recovery from the destruction of the war: production of electricity is now twice what it was in 1938, production of coal is up by 25 per cent., production of crude steel by over 60 per cent. These results are truly remarkable and they must be borne in mind when reading the somewhat critical appraisal of recent policy which follows.



As a result of this progress, the main shortages had disappeared by the end of 1949 and one could hope that a lasting stabilization of the value of the franc might be achieved. The Korean crisis quickly put these hopes to the test, and they failed it. Between mid-1950 and the end of 1951, as will be seen from the chart overleaf, wholesale prices rose steeply, following the rise in import prices at the same rate and almost without a time-lag; retail prices followed in due course, to reach almost the same level as wholesale prices by the first quarter of 1952.

This instability of French prices cannot be entirely explained by the rise in world prices of raw materials. Prices

increased less in England, where imported raw materials play a more important part than in France, and there was no immediate economic necessity for the price of cauliflowers in a Paris market to follow, with no time-lag, the world prices of raw cotton, of rubber or of tin. Neither was there any necessity for the prices of home-produced raw materials to more than double, while the prices of imported raw materials went up by less than 50 per cent. The explanation is not, therefore, to be found in external events.



Two main internal factors played their part. The first was a marked rise in the rate of private investment, which increased by some 50 per cent. in volume between 1949 and 1951. An important part of this increase took the form of speculative stockpiling, which the inadequacy of our statistics does not allow us to measure accurately, and of speculative transfers of funds abroad. Part of the transfer was due to the evasion of exchange control, but the greater part to more rapid covering of external commitments or delay in repatriation of export proceeds—the famous “leads and lags” element—which entailed the equivalent of a French investment abroad of about Fcs. 100,000 millions, i.e. over 30 per cent. of the deficit

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on current account of the whole franc area for the year. Another part of the increase in private investment was due to the launching of the rearmament programme. Although actual production of arms was not really high until the following year, 1951 saw a significant growth of spending on tooling and stockpiling in armaments factories.

The foregoing factor cannot, however, tell the whole story, as tooling and stockpiling took place in most European countries. In all Western countries, the expansion of private investment took place at a time when a depression was developing in certain consumers' goods industries. What was remarkable in France was that prices did not fall in these sectors. Prices went up almost as quickly in all industries, whether they were suffering from shortages or from the onset of depression. The most probable explanation lies in the rigidity of the French economy, on the one hand, and in the absence of true competition in most markets on the other hand. The first factor—the difficulty of French industry in adapting itself to changes in demand and the lack of mobility of manpower—explains the rise of prices in investment goods industries. The pervasive influence of tacit or official price agreements in consumers' goods industries, and the insensitivity of consumers' demand to price changes, explain why a decline

TABLE I
NET NATIONAL PRODUCT AT FACTOR COST¹

Francs '000 millions.

		Private Consumption	Consumption of Public Authorities	Net Capital Formation	Net Exports of Goods and Services	Total
1938	..	317	59	1	3	380
	%	83	16	*	*	100
1947	..	2,920	650	240	-110	3,700
	%	79	17	7	-3	100
1948	..	4,800	840	500	-130	6,010
	%	80	14	8	-2	100
1949	..	5,530	1,160	730	30	7,450
	%	74	16	10	*	100
1950	..	6,240	1,390	740	160	8,530
	%	73	16	9	2	100
1951	..	7,670	1,720	920	170	10,480
	%	73	16	9	2	100
1952	..	8,770	2,560	630	50	12,010
	%	73	21	5	1	100

* Negligible.

¹ Unless otherwise specified, the figures in the tables are taken from the publications of the *Institut National de la Statistique et des Etudes Economiques*.

in demand resulted in an increase in stocks instead of a fall in prices. This increase in stocks was only made possible, however, by a lax monetary policy: bank loans to businesses increased by 40 per cent. during 1951, a great part of this increase undoubtedly going to finance the building up of stocks.

The first few months of 1952 saw a complete change in the situation. The rate of stock accumulation declined and consumers began, at last, to react more rationally to high prices. Although industrial production was stagnant for the first time since the end of the war, the growing deficit of the trade balance increased the total supply of goods and services in face of a demand which was no longer inflated. Prices should normally have declined, but everyone knows that French prices, like British wages, never go down. The action of the same structural factors which explained the volatility of prices in 1951 was strong enough to prevent any significant decline in 1952. In any case, the stage was set for a stabilization of the economy. The term stabilization is however ambiguous, and some aspects of the choices which were made in the spring of 1952 are worth considering.

In the short run, production of armaments and of capital goods are two highly competitive activities, and fixed capital formation (especially in plant and machinery) had to decrease, for a time at least, as production of arms gathered momentum. In this respect there was not much difference between the French and British situations early in 1952, but the impact of rearmament was very different in the two countries, owing to the important rôle of the French budget in the financing of capital formation. Largely unavoidable cuts in public investment were more than compensated by the rise in armaments expenditure; but the recession in consumers' trades had an immediate effect on fiscal receipts, as turnover taxes play an important part in French finance. Although the state of the economy was a great deal sounder than at any time since the war, budgetary difficulties developed early in the year and led to a major political crisis which no rational appraisal of the situation could justify. The pathological answer of French opinion to the prospect of a budget deficit had asserted itself and "sound finance" was to take the place of economic policy.

The measures taken to meet the financial difficulties amounted to a gamble on a change in the psychological outlook of producers, especially small-scale entrepreneurs. The basic assumption was that the paralysis of the capital market since the war was due to inflation alone and that its activity could

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be quickly stimulated by a shift in confidence. The increased flow of savings could then provide funds for capital formation formerly State-financed; a surplus would even be available to cover the remaining deficit in the State budget. In the event, this proved to be wishful thinking. The changes in the structure of the capital market and in the flow of private savings, although partly due to inflation, were too deep to be reversed overnight. Furthermore, the unexpected popularity of a formerly little-known Prime Minister (M. Pinay) turned out to be a quickly wasting asset and no substitute for a coherent policy. The expected flow of private savings did not, in fact, materialize and the year ended with the biggest deficit in the

TABLE II
GROSS CAPITAL FORMATION AND ITS FINANCING

Francs '000 millions.

	1938	1947	1948	1949	1950	1951	1952	1953*
A. CAPITAL FORMATION—								
Buildings	25	240	540	720	760	1,050	1,270	} n.a.
Plant, machinery and vehicles	38	410	700	770	910	1,240	1,370	
	63	650	1,240	1,490	1,670	2,290	2,640	} n.a.
Less Purchases by public authorities**	-15	-140	-140	-190	-260	-340	-630	
Plus Increases in stocks	1	100	100	290	270	190	30	
Gross capital formation	49	610	1,200	1,590	1,680	2,140	2,040	1,900
Less Depreciation and maintenance	-48	-370	-700	-860	-940	-1,220	-1,410	-1,470
Net capital formation	1	240	500	730	740	920	630	430
B. FINANCING—								
Financing by public authorities	10	250	550	750	780	710	770	} n.a.
Current deficit of public authorities	-34	-500	-530	-560	-450	-460	-800	
Net public savings ..	-24	-250	20	190	330	250	-30	-20
Undistributed profits	14	130	200	300	270	330	160	100
Private savings ..	14	200	80	190	200	270	300	310
Loans and gifts from foreign countries ..	-3	160	180	170	20	240	300	80
Loans and gifts to colonies			20	-120	-80	-170	-100	-40
Net domestic savings	1	240	500	730	740	920	630	430

* Private source.

** These are excluded, as they mainly correspond to investments in the military sector.

public finances since 1947 (Table II). This deficit did not, of course, lead to any fresh outburst of inflation: the private sector was depressed and a record-breaking deficit of the trade balance had increased the supply of goods and services available on the home market.

The main results of the measures taken were to unfold themselves in 1953. The first result was stagnation: although consumers' trades were recovering and the rate of house-building increased, total production was no higher than in 1952 and fixed capital formation was roughly 2 per cent. lower. Indiscriminate deflationary measures, taken when the situation required selective policies, caused excess capacity and some unemployment (mainly in the form of short-time working) in most sectors of the economy; the high rate of progress maintained since the war came to an end. The second result was a mal-distribution of investment. Private financing of capital formation does not necessarily lead to more satisfactory results than financing by the State in an economy where competition is very imperfect. The contrary is probably true in France, where public funds provide the main source of finance for basic industries, whose rapid progress is still essential, and there is reason to regret that the necessary cuts in 1952 bore more heavily on the public than on the private sector.

There are, fortunately, pointers to a more favourable situation now. A bumper crop last summer banished the possibility of further rises in retail prices and industrial production has recovered during the last six months, to reach, early this year, the level of the first quarter of 1952 (7 per cent. higher than the first quarter of 1953). Recent measures to stimulate capital formation, although still moderate, are signs of a more constructive policy. In spite of a definite improvement last year, the sore point is still the external deficit, which we shall study in more detail.

II

THE BALANCE OF PAYMENTS

It is often said that France's current deficit with the rest of the world is "compensated" to a great extent by a surplus with the colonies and associated States. This is true only as far as accounting is concerned. The overseas franc area has itself a current deficit with the rest of the world, and the fact that metropolitan France has a surplus in trade with these territories cannot in any way help her to meet her dollar and

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sterling shortages. The transfer of real resources from France to her colonies has, in fact, no more meaning for external finance than a social transfer from one class to another within the country. However, one must take into account the drain of real resources caused by heavy French investment in the colonies and, above all, by the immense cost of the war in Indo-China. This drain has greatly exceeded France's total receipts of foreign aid, which have therefore not increased the welfare of the French people. This may supply no excuse or justification for living beyond one's means, but it is at least an explanation.

The surplus with the colonies is significant for another reason: so long as no measures are taken to curb it, the colonies are a soft market more attractive to French exporters than the more difficult markets of the dollar and sterling worlds. Ready finance for the colonies has the same effect in restricting exports as protection and high prices in the home market. The sharp decrease of France's surplus with the rest of the franc area in 1953 is therefore a favourable sign.

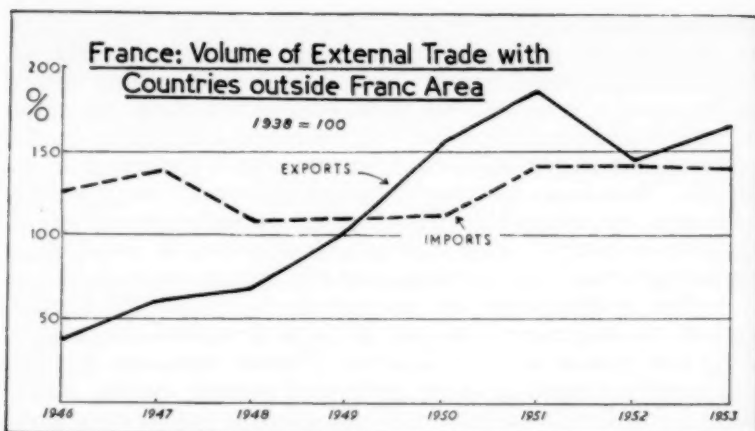
TABLE III
BALANCE OF PAYMENTS ON CURRENT ACCOUNT OF THE
FRENCH FRANC AREA

U.S. \$ thousands.

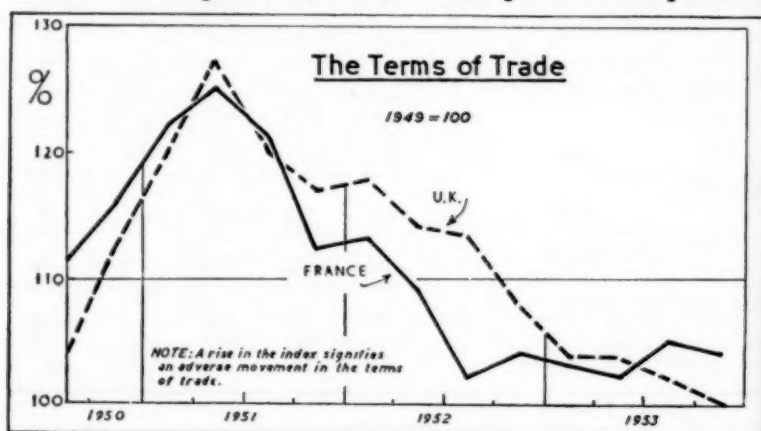
	1949	1950	1951	1952	1953* (1st half)	1953* (2nd half)
CREDITS—						
Visible trade**	1,567	1,880	2,496	2,415	1,228	1,291
Invisibles	633	620	615	675	292	n.a.
Defence aid (net)	nil	nil	72	302	195	n.a.
Total ..	2,200	2,500	3,183	3,392	1,715	n.a.
DEBITS—						
Visible trade**	2,034	1,958	3,267	3,112	1,542	1,412
Invisibles	873	780	974	939	449	n.a.
Total ..	2,907	2,738	4,241	4,051	1,991	n.a.
BALANCE—						
Total ..	-707	-238	-1,058	-659	-276	+ 56
of which } France	-540	-115	-970	-591	-200	+ 84
} Overseas franc } area	-167	-123	- 88	- 68	-76	- 28
BALANCE BY AREAS—						
With Dollar area	-858	-419	-534	-172	+ 2	+118
„ Sterling area	+ 19	+ 35	-121	-197	-185	- 94
„ Other E.P.U. countries	+ 11	+157	-400	-256	- 91	n.a.

* Source: *Ministère des Finances*.

** Up to 1951, visible trade of France alone.



The current deficit of France itself is in great part due to visible trade. Although the volume of French exports rose more quickly than the volume of imports (see chart above), this only just offset the effects of the long-period shift of the terms of trade in favour of primary producers which affected France in the same way as Britain. Before the war the deficit on merchandise trade was offset by a surplus on invisible trade; but there is now a deficit on invisible trade also (at least, if military aid is excluded). This deterioration is due not only to the loss of investment income which directly resulted from the war, but also to an unfavourable change in invisible trade proper: so far as freight and insurance are concerned, France is now a net importer instead of a net exporter. Receipts from



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the tourist industry have not changed significantly (in real terms) since the late pre-war years ; no doubt, some improvement is possible here, even though French residents are showing an increasing taste for travel abroad.

Within this unfavourable environment, the situation had improved rapidly after the early reconstruction period. By the end of 1950, the current deficit of the franc area had been reduced to manageable proportions. The Korean crisis and European rearmament were unfortunately to postpone the solution of our problems until much later. The trade deficit with foreign countries of France alone¹ increased to Fcs. 343,000 millions in 1951 and to Fcs. 414,000 millions in 1952.² Although military aid was increasing and more than covered the dollar deficit, the cumulative position in E.P.U. was getting rapidly worse, due largely to the deficit with the sterling area. We were particularly affected by British import cuts, as our trade with the sterling area consists mainly of essential imports from the Commonwealth and of less essential exports to Britain.

A marked improvement took place during 1953, current payments being nearly balanced in the last quarter. The trade deficit with foreign countries shrank to Fcs. 206,000 millions (19 per cent. of the value of imports). Two-thirds of the decrease was due to an improvement in the terms of trade, the volume of imports being about the same as in 1952, and one-third was due to a growth in the volume of exports, which increased our receipts although export prices had fallen. In terms of 1952 prices, the trade balance with foreign countries in 1953 would have been some Fcs. 325,000 millions, or 25 per cent. less than in 1952.

What is the significance of this improvement? Imports of raw materials decreased and imports of finished products increased—but a recovery of the rate of economic progress would certainly induce higher raw material imports, and the favourable results of last year are thus partly a by-product of industrial stagnation. They are also a product of protection, and one may expect that recent measures of trade liberalization will raise the level of imports. The picture is more cheerful on the

¹ These figures are based on trade statistics and for two main reasons are not comparable with the estimates of the deficit on visible trade given in Table III : (a) imports are assessed c.i.f. instead of f.o.b. ; (b) the figures refer to actual imports and exports instead of to payments. They are therefore unaffected by the changes in "leads and lags" which increased the payments deficit by some 100,000 million francs in 1951 and decreased it by a comparable amount in 1952.

² i.e. respectively 27 per cent. and 33 per cent. of the value of imports.

export side, where real progress has been made. It is, however, a somewhat disquieting fact that exports of raw materials and semi-finished products provided the bulk of the increase—a clear sign that French prices of manufactured goods are too high, mainly owing to the level of labour costs.¹ The obvious remedy would be devaluation. This would have been possible in the middle of 1952, and one may regret that the opportunity was not taken then. It would be exceedingly dangerous in the present political climate; furthermore, our receipts of military aid make it unnecessary to devalue in the short run. But there is an obvious danger in relying unduly on external aid to cover the foreign trade deficit. If and when this aid ceases, the economy might find it very hard to adjust itself to the change, because this aid would have sheltered it from competition for too long.

Last year's figures, although more satisfactory than one could perhaps expect, provide no reason for complacency. At the same time, another favourable fact is that recent difficulties have at last awakened French opinion to the importance of foreign trade, and this change may well have far-reaching effects on our export policy. Progress is, however, limited by the structural maladjustments which we have already mentioned. The protection afforded to the home market both raises prices and diverts producers from looking for foreign markets; at the same time, it directly increases wage-costs. The numerous small firms in some sectors, especially agriculture, are not suitably organized for export trade. Here again, after the remarkable achievements of the early post-war years, further progress is limited by long-term factors which might be much more difficult to overcome.

III

STRUCTURAL DISTORTIONS

One may get a first impression of the structural distortions which affect the pattern of the French economy by comparing the levels of average income in different social groups. France's working population is divided into three main groups of roughly comparable size: farmers and farm labourers, non-agricultural wage and salary earners, and self-employed workers in industry and commerce. The very existence of this division is important in explaining French political and social affairs, and many differences between France and Britain are better understood if one starts from this fact. What matters

¹ Including social security contributions, which are very high.

for us is not this division itself, but the existence of wide and lasting differences in average income between one group and another. The table below gives approximate estimates of the average incomes per head of the working population of each group, in 1949.

	Wage and salary earners outside agriculture	Self-employed outside agriculture	AGRICULTURE	
			Farmers and working members of farmers' families	Farm labourers
Working population of the group ('000)	10,150	3,300	4,500	1,250
Average income in 1949 (Francs '000)	325	500	175	125

Furthermore, although the range of incomes for wage and salary earners is not abnormally wide this is by no means true of the last two groups. The average incomes of farmers in the richer districts are some five times greater than those in the poorer areas, and the range is at least as wide among the self-employed in industry and commerce.

There would be nothing abnormal in these disparities if they did not last. But the fact that they are lasting is a clear sign that economic rigidities permanently prevent the achievement of anything like an optimum distribution of resources in France.

In some cases, specific explanations can be found for these rigidities and the losses in efficiency which they induce. Together with lack of capital, the small size of holdings, often divided into widely scattered fields, is one cause of the low productivity of French agriculture. At the same time, ancestral attachment to their native district makes peasants fight shy of moving to another part of the country; as a result, unproductive land goes on being farmed when it should have been abandoned long ago, while more productive parts of the country are insufficiently farmed. (This is also due to lack of capital, which makes it difficult for young farmers to settle in a new district.) Industry itself, which is considerably more efficient than agriculture or retail trade, has to put up with great rigidities in the geographical and functional distribution of manpower. The labour market is badly organized, facilities for adult training are inadequate and the acute housing shortage adds to the difficulties.

Specific explanations cannot, however, suffice. If French agriculture has been able to live, however poorly, whilst refusing

to adapt itself to new conditions for more than half a century, if the profits of shopkeepers have been allowed to increase as their efficiency has decreased, some general causes must be found. The main factors are the obstacles to economic change inherent in the protection granted by the State to some sectors and in private restrictions to competition in other sectors, combined with inflation, which France has known almost without intermission for the last fifty years. We shall deal only with State protection: except that their importance is considerable and that they are pervasive, too little is known about the form and the extent of restrictions to competition and of price agreements; too much is known everywhere about inflation for us to enlarge on the subject. It may be said that inflation has framed and distorted the outlook of French producers and entrepreneurs in the same way and to the same extent as large-scale unemployment has distorted the outlook of British producers. In the post-war years, inflation has been the main cause of the unhealthy growth of the distributive sector which has further reduced its efficiency, already low before the war. (As a result, 10 per cent. more workers handled a slightly smaller volume of trade in 1949 than in 1938.)

Protection, internal and external, either causes or prolongs an uneconomic distribution of resources and puts the brake on economic progress by subsidizing inefficient sectors, industries or firms at the expense of the more productive parts of the economy. France has, of course, no claim to a monopoly in this field; if the reader remembers the way State-induced restrictions on competition blocked economic change in England in the 'thirties, he will better understand what follows and find himself on familiar ground.

The effects of protection are especially clear in the case of agriculture, although they do exist in other sectors. It all began by external protection: tariff walls were raised to shelter the French farmer from the world-wide decline in farm incomes in the 'nineties. Internal protection was only added later on. This takes the form of a privileged fiscal treatment, of direct subsidies, price guarantees, State purchase of surplus crops at remunerative prices and so on. It has been estimated that in 1953 all these advantages caused a transfer of income from the rest of the economy to agriculture of approximately Fcs. 300,000 millions (Fcs. 100,000 millions in the form of tax exemptions), representing some 25 per cent. of the net income of agriculture.

This lasting protection has allowed a definitely greater part of the working population to stay in agriculture than purely economic considerations could justify. The form in which

protection is granted further causes distortions within agriculture itself. The price of wheat, for instance, is fixed at a level which makes it possible to grow wheat in the most unexpected places; as a result, greatly increased earnings accrue to farmers in more productive districts, who may get up to four times as much wheat per acre for a total cost which is only slightly higher. Were it not for the guaranteed price, some 40 per cent. of the whole acreage now sown in wheat would have to be turned over to other uses. Purchase by the State of certain crops, like sugar beet, takes place at a price which is so remunerative that production of these crops actually increases faster than that of other more useful crops.

All this not only results in low efficiency but in artificially high prices, which directly restrict our chances of exporting agricultural produce and indirectly hinder our competitive position in the markets for other products by pushing up wage-costs in industry.

This is rather a bleak picture, which has to be borne in mind when one considers the technical and economic achievements of some French industries: the efficient running of the railways, the building of hydro-electric power-stations, and so on. The contrast is actually the clue to the basic problem of the French economy. The standard of living of the French worker and the external position of the country—not only in the export field, but sometimes in the battlefield too—have been made to suffer from the low efficiency of many producers. This is being perpetuated under the elaborate protection of a maze of controls and regulations which throttle competition; and it is aggravated by inflation. A by-product of the system is an unhealthy distribution of incomes. The marginal producer in agriculture just manages to live, whereas more fortunate farmers enjoy swollen profits. The distortion of the price mechanism due to inflation and the working of price agreements transfer to the distributive trades a great part of the subsidies awarded to agriculture; industry is the only clear loser.

IV

POSSIBLE SOLUTIONS

Curiously enough, all this does not result from stupidity or perversity. The initial cause lies in a definite, if not perfectly conscious, political choice. Economic progress is not the only aim which a society should pursue. Half a century ago, arguments could easily justify a system which aimed at the maintenance of a given social structure, even if this slowed

down the growth of the economy. At that time, it was not entirely stupid to attach more weight to the advantages derived from the existence of a numerous land-owning farming community than to the price to be paid in terms of real wealth. A balanced division of the working population between industry and agriculture can make for economic stability and it is significant that no problem of large-scale unemployment has ever arisen in France; it makes for social stability as well and, together with economic progress, it keeps other revolutionary forces at bay.

Unfortunately, the choice in favour of conservation has bred conservatism in its narrowest form: the society whose structure has been thus protected has seen its political system framed in its own image, the forces of conservation being as strong on the Left as on the Right. The only trouble is that we are living in a world where the cost to the community of the choice made long ago is becoming higher and higher, whereas its benefits have an increasingly doubtful value.

If the foregoing analysis is correct, it is clear that a solution of the difficulties must first of all be found on the political plane. Much would be achieved in a short time if only State intervention ceased to stifle competition but aimed instead at enforcing it, and if the most wasteful transfers of resources to inefficient sectors were discontinued. We are not qualified to assess the prospects in the political field. However, two or three facts are clear. First, the system as it now exists is near breaking point: it breeds discontent in the groups which are supposed to benefit from it and turns the losers into revolutionaries. Second, the kind of analysis we suggested, which was until recently restricted to esoteric circles of experts, is gaining an ever-increasing currency, thanks largely to the clarity of a succession of official publications.¹ Lastly, this is slowly becoming reflected in Parliament, where the issue of economic progress might fairly soon prove itself one of the main lines of division, cutting across all party boundaries. Even from a short-term point of view, some optimism may very well be justified.

Pending this political change, short-term measures are possible and long-term measures can be prepared. The range of possible lines of action is very wide and there is no doubt that a little progress in many directions might bear fruit fairly quickly. Any blueprint for action would therefore fall outside the scope of this survey and of its author's competence; we

¹ Whose conclusions are summarized in the latest O.E.E.C. report on Economic Conditions in France.

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shall only mention the needs for fiscal reform and for a prolonged and heavy flow of public investment.

The main shortcomings of the French fiscal system do not derive so much from tax evasion as from the privileged treatment granted to some groups of taxpayers. Incomes of farmers, shopkeepers and small-scale entrepreneurs are legally assessed much below their actual level (in 1951, farmers paid Fcs. 13,000 millions in income tax, whereas a group of wage-earners with the same actual income would have paid some Fcs. 90,000 millions). There is no chance of this privilege being reversed in the short run. The prospects are, however, better for indirect taxes, which account for approximately two-thirds of total tax receipts. A first and long overdue measure has just been passed to cut indirect taxes on investment goods. The introduction of wider differentials in the rate of tax on different consumption goods would be a useful addition.

Lowering the price of agricultural produce and increasing farm incomes are urgent matters, but making up for the low rate of technical progress in agriculture over the last fifty years will be no easy task and will require large amounts of capital. Much of the necessary investment will be unattractive to the capital market and will have to be provided out of public funds. Contrary to what took place in the early post-war years, the need is not so much now for a very high rate of fixed capital formation in basic industries, such as has been very successfully financed under the ægis of the Monnet Plan. The second *Plan de Modernisation*, which is the continuation of the Monnet Plan, rightly puts the stress on agriculture. Finance is needed for the resettlement of farmers in new districts, for a great extension of vocational training, for a regrouping in compact plots of the land of many farms, for the organization of the marketing of produce, both at home and abroad. Similar efforts, pervasive but unspectacular, are planned for consumer goods industries. The same should follow in retail trade.

The short-term economic situation is favourable to the launching of these projects; there are signs that the will to achieve them will be forthcoming. The only major unknown is the future weight of our overseas commitments. It must be recognized that their sharp reduction would undoubtedly greatly benefit France's economic health and be in the best interests of the Western Alliance.

GEORGES ROTTIER.

London.

June, 1954.

Statistics as a Basis for Policy

By Professor Ely Devons

I

IN the debate and discussion that precedes and surrounds the many important decisions in the economic and social sphere taken by the Government and other public authorities, statistics have come to play an apparently greater and greater rôle in recent years. No economic issue is raised without batteries of figures being produced supporting or opposing a particular line of action, and more and more reliance is put on statistical analysis in trying to get the correct answer.

It is never easy to discover after the event what forces actually determined the decision which was taken in particular circumstances, and dispassionate study of public decision-taking is still in its infancy. Yet there is sufficient evidence to make a discussion of the rôle that statistics play in this process interesting and possibly profitable. It is impossible to deal with the whole field of economic decision-taking in a short article, and I confine my attention to three major spheres, all of considerable current importance. First, long-term production and investment planning by public authorities, particularly by nationalized undertakings; second, the allocation of expenditure and over-all control of investment by the central government; and third, the conduct of general economic policy designed to keep the country on an even keel.

II

In recent years many public authorities have tried to estimate by statistical analysis the long-term demand for the products of the industry they run, as a basis for drawing up production or investment plans. Such plans have been a regular feature of the work of the National Boards for coal, gas and electricity; and the central government has encouraged, if not actually required, the steel industry to draw up such plans. The Cotton Board has made similar estimates from time to time about the long-term demand for the products of the cotton industry; but they are not so important as those for coal or steel, since the Cotton Board exercises no direct control over production and investment in the industry.

In principle, the problems that face the Coal Board, the Steel Board, or the Cotton Board in attempts to estimate future demand are the same as those which face any single

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firm which tries consciously to work out some basis for deciding long-term investment and production policy. And where a single firm dominates an industry, the problems are much the same in practice. All such estimates are bound to contain a very large element of assumption or hazardous guesswork. However much statistical analysis is undertaken, no final certain figure of future demand can ever be arrived at. Inevitably, the decision about how much plant and production to plan implies a substantial element of risk-taking, and the decision about what risk to take is one of the most important functions performed by the businessman. Public authorities can no more avoid taking such risks, either consciously or by default, than can a private firm.

It is true that there was for a time a widespread view—it may still be widespread—that the central government, the nationalized boards, and their servants in Whitehall have some special knowledge and techniques which would enable them to narrow these risks very substantially, if not to eliminate them altogether. Indeed, one of the arguments frequently put forward in support of nationalization or public control was that output and investment could then be planned on a co-ordinated long-term basis instead of being accidentally determined by the vagaries of market forces. And it was usually implied that statistical analysis of major long-term trends, which either could not or would not be undertaken by single firms or private industries, would provide the basis for such investment and production planning.

The experience of the Coal Board provides an interesting example of an attempt to draw up a long-term plan on the basis of such statistical analysis. In the *Plan for Coal*¹, the National Coal Board explains how it tried to estimate the level of output for which the Board ought to provide for the years 1961–65, at that time about ten to fifteen years ahead. Even a cursory glance at Chapter III, dealing with “Demand”, reveals the large number of assumptions that are involved, even if not consciously made, in any estimates of future demand for coal: assumptions about the future level of output in industries consuming coal, the course of efficiency in using coal, the competition of alternative fuels, domestic and export demand and, most troublesome of all, the effect on all these of varying assumptions about the likely future trend of coal prices.

How do statistics and statistical analysis help the Board,

¹ Published in October, 1950.

if at all, to decide what are the right or the best assumptions to make? In assessing future industrial demand for coal, the Plan starts with a crude comparison between the movement of coal consumption by industry and the level of industrial production between 1946 and 1950. It then proceeds "assuming present trends continued for only another five years, the coal consumed by industry and public utilities might be expected to rise to 155 million tons", compared with 140 million tons in 1950. "Adding 60 million tons for coal consumed at collieries, by householders and miscellaneous consumers, the total inland demand would be 215 million tons", compared with actual consumption of 196 million tons in 1950. This is an extrapolation only five years ahead; a continuation of the projection for fifteen years would have given a figure of 245 million tons. This seems to have frightened the Coal Board, since the calculation is not even given for the fifteen-year period. But we are warned how dangerous it would be to project such a short-term trend into the future. An analysis of pre-war trends, we are told, "gives an inland demand in the long run of not more than 190 million tons". Then comes the prize statement that "the true estimate probably lies somewhere between the two figures" [of 190 and 215] and "the Board have, for purposes of their first plan, estimated the inland demand at between 205 million and 215 million tons". No evidence is produced to support this assessment of probability, and the figure of 215 million tons, which was first given as an estimate for *five* years ahead (i.e. for 1955) is now treated without explanation as the upward limit of consumption for 1961-65.

The plan explains that this estimate of total demand is based not only on an analysis of past trends but also takes into account "the known or probable developments of the main industries". There follows some discussion of the likely level of demand in gas, steel, railways and electricity. In these cases the plan virtually takes over the estimates of demand made by each industry, although the grounds for hesitation and doubt are emphasized. Thus, "the long-term demand for coal by coke ovens depends primarily on how much metallurgical coke is required for steel making, and the future demand for steel in the markets of the world is not easy to assess". The statistical evidence brought forward in support of the estimates for particular industries is much too tenuous and uncertain to be thought of as corroborating the earlier estimate on the global basis.

This still leaves coal exports, obviously extremely difficult to forecast. Here we are enlightened by the platitudinous statements which so frequently occur in these exercises. "The amount that can be expected depends upon the share of the trade which the British coal industry can win in competition with foreign suppliers of coal and other forms of fuel". Figures of exports in the inter-war years are quoted, but these are not very relevant. After some discussion of various aspects of export possibilities, none expressed in statistical terms, the section concludes "taking one thing with another, the Board have assessed the overseas demand as lying between 25 and 35 million tons a year". This, together with the estimate of 205-215 million tons for inland demand, gives the total of 230-250 million tons, the middle figure of 240 millions being used in the rest of the document.

Is it necessary to demonstrate that in this case statistical analysis has hardly served to reduce uncertainty and risk to any great extent? No one, least of all apparently the Coal Board, would treat the final figure of 240 million tons as a firm basis for planning. Indeed, it is significant that the plan explains that any alteration in the figure of 240 million, say an upward revision, would not affect the action to be taken under the plan, since "the programme for the next 15 years is in any case a maximum".

Two years after the publication of the *Plan for Coal* another estimate of the future demand for coal was made by the Committee on National Policy for Use of Fuel and Power Resources¹, generally known as the "Ridley Committee". The Ridley Committee, much bolder than the Coal Board, arrived at a set of estimates for coal consumption in 1959-63 by rigorously working out to their final conclusion a set of assumptions about the future level of output in each major industry, the relation between output and the use of fuel, and the competition of alternative fuels, especially oil. The estimate of total inland coal demand arrived at by the Ridley Committee is considerably higher than the figure given in the Coal Plan—232 millions compared with 205-215 millions—even though the Ridley Committee's estimates are for a slightly earlier period². One of the major assumptions which determine the Ridley Committee's final result is the rate of increase in industrial output, about which the Coal Plan was so cautious and evasive. The Ridley Committee assumed a cumulative

¹ Cmd. 8647, September, 1952.

² Average 1959-63, compared with 1961-65 used in the *Plan for Coal*.

rate of increase of 4 per cent. per annum in steel production and in production in the main sectors of industry. Allowance is made for improved fuel efficiency. This is not specified for iron and steel but is taken to result in an increase in fuel consumption of 3 per cent. per annum in the rest of industry, which is well in excess of what was implied in the Coal Plan.

The Ridley Committee recognizes "that many of our assumptions may turn out to be wide of the mark, and if they do the effect on demand for fuel will be significant". If industrial production increased by only 2 per cent. and fuel efficiency by $\frac{1}{2}$ per cent. (instead of the assumed 4 per cent. and 1 per cent.) the estimate of demand in 1959-63 would be reduced by 15 million tons; if production increased by 6 per cent. and fuel efficiency by 1 per cent., the estimate would be exceeded by 15 to 20 million tons. Taking these two alternative assumptions quoted by the Ridley Committee would give an estimate for inland consumption between 215 and 250 million tons. Hardly a basis for planning, since it merely tells us that the risks involved in estimates for the future are very large. Yet the Ridley Committee uses the single figure of 232 for inland consumption, takes over the Coal Plan figures of 25 to 35 million for exports and gives 257-267 million tons as its estimate of total annual coal requirements in the period 1959-63.

Here, then, we have three sets of estimates: the Coal Board's of 230-250 million tons, the Ridley Committee's of 257-267 million and, taking the Ridley Committee's illustrative alternative assumptions about the rate of increase in industrial production and fuel efficiency, an even wider range between 240-285 million tons. The substantial difference between these estimates reflects the simple fact that if we make different assumptions we will get different results, and the wider the range of alternative assumptions the bigger the difference between the final estimates. No statistical analysis will give us a criterion for selecting with confidence between the various alternative assumptions used in this case. There is no objective test that can be used to discover in advance which is the best set of estimates. The plausibility to different people of widely varying assumptions merely serves to illustrate our uncertainty about the future, and the big differences between the final estimates should make it clear that we have to take big risks if we want to plan investment or production a long way ahead.

It may well be said that while all this is true, the Coal Board nevertheless has to decide how much coal to produce and how much to invest in order to expand production in the

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future. This is undoubtedly so, and the Board may feel it necessary to assure themselves and the public that they are taking their decisions on an apparently rational assessment of all the evidence. And what more convincing way of doing this than by discussing the issue in statistical terms. But it would be misleading to think that this examination of the statistical evidence eliminates or even appreciably reduces the risks that the Coal Board, as any private business, has to take in planning for the future. The statistical analysis, by showing the implications of varying assumptions, perhaps plays a useful rôle in revealing the magnitude of the risks involved. It does little, if anything, to reduce the risks or to help in deciding which is the best risk to take.

Coal has been discussed as an interesting case and because information in some detail has been published about the basis of estimates of future demand. The published evidence for other industries, such as steel, which have undertaken production or investment planning since the war, is much more limited, but tends to confirm the conclusions drawn from the coal example. In all these cases the estimate of demand is built up from a series of assumptions, the choice of assumptions being largely a matter of judgement and temperament. The validity of the particular assumptions used is not demonstrated; indeed usually it is not even discussed.

It is true that once you have decided what figure to go for, what risk to take, it is quite easy to build up a statistical picture of requirements to back up the decisions that have been taken. It is merely a matter of choosing the appropriate assumptions. And this may be quite useful in exposing the assumptions and, therefore, the risks implied in the course of action that is being followed. But the unwary reader may easily be led to believe that such a statistical statement actually demonstrates that the right risks are being taken.

III

The second sphere of decision-taking chosen for examination is that of central government activity in allocating expenditure and controlling the level and distribution of investment. Here the regularly recurring questions which demand answers are such as: what should the Government spend on education, health, pensions or other social services? What on defence? How many houses should the Government plan to build or subsidize? What proportion of the national income should be invested? Which particular avenues of

investment should be encouraged and which discouraged?

It is important to realize that in the actual process of decision-taking, these questions normally have to be answered only in terms of a little more or a little less. Once the Government is committed to expenditure on some particular service, the question whether the total expenditure on the service is worth while is rarely debated as an issue of practical politics. The real question for decision is not usually, therefore, how much should the Government spend in total on this or that service, but how much more or less should be spent next year. Most of the questions that have to be answered relate to relatively small marginal adjustments. But occasionally—for example, in arguments before deciding to introduce the National Health Service—issues about the worthwhileness of expenditure are raised on a grander scale.

How do statistics and statistical analysis help in providing answers to these questions? Let us take housing policy as an example. Should the Government plan to subsidize 250,000, 300,000, or 350,000 houses a year? How decide on the right answer? It is sometimes suggested that a detailed statistical analysis of present housing conditions and needs would provide the answer. How does one decide on "housing needs"? The usual answer is in the unhelpful form that "enough houses should be built to house everybody adequately". What is the criterion of adequacy? A house for every family? How big a house? How is a family to be defined? How quickly is such a desirable state of affairs to be reached: in five, ten or twenty years? No amount of statistical analysis can give answers to such questions.

This does not mean that statistics are of no help in resolving issues of housing policy. Although statistical analysis cannot give a direct answer to the question how many houses to build, it can fill gaps in our knowledge about present housing conditions and expose the implications of alternative house-building programmes. Thus, an analysis of the results of the 1951 Census of Population may show how many small families or single persons are living in houses on their own. Social surveys of housing conditions may throw light on the extent of overcrowding, although this is itself an ambiguous term. A statistical analysis, by income, occupation and size of family, of the people who go into new houses might reveal some surprising facts about the sections of the population that are reaping the main benefit from the policy of subsidizing houses on a large scale. An examination of the changing conditions

of old houses might reveal some of the effects of rent restriction. All such information and much else is without doubt relevant for housing policy ; for although none of it answers the question at issue directly, it brings to light facts which are relevant to the decision. We cannot rationally decide how many houses to subsidize without having some knowledge of who will benefit, even though when we have such knowledge it will not tell us unequivocally how many houses to subsidize.

The use of statistics in argument about expenditure on education is much the same. Should we spend more or less on education ? Discussion of this issue is frequently conducted with statistical arguments. Figures are quoted about the size of classes, the age of buildings, the proportion of children beyond fifteen receiving an education, the proportion of the population attending universities, the supply of school teachers, and so on. But accumulation of statistical information of this kind will not give us a direct answer to the question : should we spend more or less ? Just as with housing, we cannot take a rational decision without such information. We cannot sensibly decide whether we think more or less should be spent unless we have some appreciation of what is achieved with the present level of expenditure and how this would be affected by spending more or less. But the information, no matter how accurate and voluminous, cannot by itself settle the issue, for, as we know, two people given exactly the same information may take quite different views whether educational expenditure ought to be raised or cut.

IV

The use of statistics in the control of investment by the central government raises different issues. It is now generally acknowledged that there are no objective criteria by which the Government can decide what is the right amount of investment in total. But it is still sometimes argued that it is possible by statistical analysis to decide on the distribution of investment. If the Government in its control over investment merely wants to imitate market procedure and to select the lines of investment that will pay best, then it might try to work out rates of return on the various projects submitted to it and use such rates as the criteria for selecting which to approve. Even on this basis, however, prospective rates of return could be calculated only with very wide margins, representing the essential risks involved in such forecasting and, as with estimates of future coal and steel requirements, statistical investigation might expose and illustrate these risks but is unlikely to narrow them.

Usually, Government control of investment does not merely try to imitate market procedures; indeed, the very purpose of Government control is to prevent ordinary market forces being the criterion of distribution. The controlling authority tries to select on the basis of the public interest or of social priorities. It is extremely difficult to see how social priorities or social rates of return can be measured statistically. How does one compare statistically the social rate of return from building more houses with the social rate of return from more investment on road building and repair? Or compare the social rate of return from additional investment in the coal industry with investment in engineering or textiles?

Whether or not it is possible to measure social rates of return statistically, there is in any case little evidence that such calculations ever played an important rôle in the deliberations of the Capital Issues Committee and the Investments Programme Committee. Little has been published about the proceedings of these two important committees and the criteria which they used in arriving at their decisions, but I suspect that the allocation of investment is much better thought of as the result of political and administrative struggles and pressures, than as a rational choice determined by the statistical measurement of rates of social return. Each industry or line of investment is the administrative responsibility of some Government department and in the argument about the investment programme, each department would fight for the interests for which it was responsible. Every argument would, of course, be used to demonstrate that the investment being sponsored is vital to the economy, because it would relieve a potential bottleneck, result in export expansion or dollar saving. The strength of this case, the efficiency with which it is presented, the power and energy of the Minister in charge, public pressure and generally accepted but vaguely expressed ideas of what is "essential" and "inessential", would all go to determine how each particular request for inclusion in the investment programme was treated.

No doubt argument before these committees would be dressed up in statistics, since every official knows that a statistical case always makes an impression. And if all those concerned play the statistical game correctly—especially if they are not sure that they are playing a game—then an apparent air of deciding the issues rationally in terms of quantitative estimates of the results of alternative lines of action may easily be maintained.

V

In the post-war period great claims were made for statistical analysis as a guide to a general employment policy. National income and expenditure was used as a device for forecasting whether in the coming year the economic situation would be inflationary or deflationary. In the more ambitious calculations the magnitude of the prospective inflationary or deflationary gap was also estimated. Such calculations, if reliable, would be of the greatest value to those responsible for decisions on economic policy, since they would help them to decide on the appropriate monetary or fiscal policy to adopt in order to prevent either over-full employment or unemployment from developing. Experience of the use of these calculations in the last few years has, however, demonstrated that the claims often made for them were much exaggerated.

The essential forecasting element in national income and expenditure models lies in the assumptions about the future course of the most important aggregates which determine the level of production and expenditure. The final calculations merely reveal the implications of such assumptions. If one assumes an increased rate of construction and fixed investment, an attempt by business to accumulate stocks and greater buying pressure by consumers, it is hardly surprising that a forecast of income and expenditure will show inflationary pressure in the coming year. The crucial elements in the forecasts are those relating to investment and stock-building; only if the forecast of these is reliable will the rest of the calculation be significant.

The real problem, therefore, is how to forecast investment and stock-building. Should one make such forecasts by asking businessmen what their intentions are? If this is done, then one must bear in mind that businessmen, too, find it very difficult to foresee a change in direction. When investment and stock-building are rising appreciably they will tend to expect a continuation of the rise. This means that when the trend is markedly in an inflationary or deflationary direction one can forecast its continuance in the same direction for some time ahead and usually, but not always, be proved right. When the trend is not strong in either direction, on the other hand, it is difficult to see what is going to happen even for a short period ahead.

Even when one is confident about whether the direction is inflationary or deflationary, it is impossible to make a useful forecast of the extent of the pressure expressed as a figure of

the inflationary or deflationary gap; for, apart from other difficulties, the statistical errors in the estimates inevitably result in a figure for the gap with such wide limits that it is of little use to those who decide policy. A single figure for the gap can be given only if these errors are ignored.

In view of these difficulties in using the national income and expenditure forecasts, there is a strong case for paying more attention to statistics of the most sensitive indicators of economic change. Figures of order books, stocks, prices, overtime and short-time working and unemployment, if they are available promptly, are more likely to give us early warning of a change in business conditions than are national income and expenditure forecasts.

VI

Whatever the validity of these arguments about the limitations of the usefulness of statistics as a guide to action, it is apparent that statistics have popularly a much greater influence than this reasoning would suggest; for the use of statistics is certainly not confined to situations where it can really be shown that they narrow the range of uncertainty about the future or make rational action possible.

There is a demand for every issue of economic policy to be discussed in terms of statistics, and even those who profess a general distrust of statistics are usually more impressed by an argument in support of a particular policy if it is backed up by figures. There is a passionate desire in our society to see issues of economic policy decided on what we think are rational grounds. We rebel against any admission of the uncertainty of our knowledge of the future as a confession of weakness. What easier way to pander to this obsession than to have all issues debated in the scientific or pseudo-scientific language of statistics. The National Coal Board has perforce to draw up a Plan for Coal and make estimates of the demand for coal, even though such estimates are almost pure guesswork and play little part in influencing the Coal Board's action. The Ridley Committee would not dare, given the temper of modern economic thinking, to discuss fuel uses without first making an estimate of fuel requirements, even though such an estimate is based on a series of hazardous assumptions and is hardly necessary for a discussion of the major issues raised in the report. Education, social services, investment, defence, all have to be discussed in statistical terms. And the analysis of national income and expenditure gives us an apparently scientific basis—indeed a "mathematical" basis which is more

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impressive—for making economic forecasts. Statistical tables, no matter what assumptions and guesses are involved in their calculation, so frequently appear to give a clearer, more assured and objective picture than can be given by a qualitative argument, necessarily imprecise and hedged round with qualifications.

This exaggerated influence of statistics resulting from willingness, indeed eagerness, to be impressed by the "hard facts" provided by the "figures", may play an important rôle in decision-taking. The Coal Board *has* to decide how much coal to produce, the Iron and Steel Federation how much new steel capacity to instal, the Government how much to spend on education and health, and what monetary and fiscal policy to follow. These authorities dare not admit either to themselves or to the public complete ignorance of rational criteria on which to base such decisions. What more tempting façade of rationality than the portrayal of some statistics that seem to point to policy in one direction rather than another? A private businessman may admit that some of his decisions, especially those about investment, are based on hunch, perhaps hardly to be distinguished from tossing a coin; but such admissions are inappropriate in public affairs.

No Chancellor of the Exchequer could introduce his proposals for monetary and fiscal policy in the House of Commons by saying "I have looked at all the forecasts; some go one way, some another; so I decided to toss a coin and assume inflationary tendencies if it came down heads and deflationary if it came down tails". No Government which revealed that its actions were decided in this fashion would command any public confidence. Indeed the Government itself might find it impossible to take decisions if it were really convinced that there was no evidence which pointed to a decision in one direction rather than in another. And statistics, however uncertain, can always apparently provide some basis. We are all willing to clutch at statistical straws and only too ready to be taken in by our own figures. Decisions must be taken, and even if it is exaggerated confidence in the statistics which helps the Government to decide rather than dither, should we complain?

Considered in this light there seem to be striking similarities between the rôle of economic statistics in our society and some of the functions which magic and divination play in primitive society. Magic in primitive society makes it possible for decisions on important issues to be taken where there is

apparently no alternative rational basis of decision, given the knowledge and technique of the society. Magical oracles decide whether to hunt in one direction or another, whether or not on some particular occasion to go to war, or which husband to choose for your daughter. If such issues were left to be decided by argument and debate, wrangling would go on indefinitely with no decision ever taken. Since the chances of being right or wrong are about even in terms of the nature of these problems and the knowledge of the society, the important thing is that *some* decision should be taken. And what more efficient and sensible system than to settle the issue by magic?

We would not think of examining the entrails of a chicken, of consulting an oracle, or of asking a diviner to find out whether the recession in the United States is going to get worse or not. Yet much of the grubbing about among national income and expenditure figures, of the statistical model-building of the econometricians and the desperate search for trend signs in the latest statistics, bear striking similarities to primitive magic. The only trouble is that we have a very large number of magicians and witchdoctors.

Statistical magic, like its primitive counterpart, is a mystery to the public; and like primitive magic it can never be proved wrong. For if the diviner's advice appears to turn out wrong and no game is shot on the hunt, the war is lost, or the marriage a failure, it is not magic that is discredited. This merely demonstrates that the magic material used was inferior or that the diviner was wrong in his reading, or that his reading was wrongly interpreted. The oracle is never wrong; a mistake merely reinforces the belief in magic. It merely demonstrates conclusively that unless you do everything the right way you will get the wrong answer. So with us, bad forecasts rarely discredit statistical magic; they merely serve to demonstrate that the basic figures were bad, that the model was wrong or the statistician mistaken in his interpretation. Naturally, in these circumstances the result is misleading. But the lesson has been learnt: next time we shall use better figures, better models, and of course the statisticians and econometricians today would never make the silly misinterpretations made in 1944, 1945 or 1946. We are convinced, rightly or wrongly, that this is the scientific procedure and we are going to stick to it.

This analogy is not meant to lead to the conclusion that all uses of economic statistics are of this magical kind. Indeed, even in the few examples of decision-taking discussed earlier

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in this article, economic statistics are of much value even if not as useful as is often popularly supposed. If they do nothing more, attempts to estimate statistically the future demand for coal or steel serve to demonstrate the uncertainty of the future, and consequently provide a warning that we must be very wary in planning coal or steel output or investment. In issues of housing, education, and investment policy, statistics can provide us with an appreciation of the existing situation, and we can hope to show through statistical analysis some of the important implications and consequences of alternative possible lines of action.

It may often be possible to go a long way by intelligent use of statistics in exposing and preventing inconsistencies and contradictions in policy-decisions in different sectors of the economy. Thus, if the Government decides on a given house-building programme, one can attempt to work out the implications of this in terms of the production of bricks and the size of the building industry or the strength of the building labour force. Or if the Government were to consider building a number of new schools and raising the school-leaving age to sixteen, one could examine what this would imply in an increased supply of teachers and the consequential effect on the supply of university graduates to occupations other than teaching. This is one of the most useful rôles for statistical analysis: to reveal the implications, and frequently the inconsistencies, in policy-decisions and so attempt to ensure that the main lines of policy are in harmony and not in conflict.

Again, although it may be difficult to use national income and expenditure analysis to forecast the economic climate, such analysis gives us a useful picture of the inter-relation of the main aggregates in the economy. Once inflationary pressure has been diagnosed there is no more powerful way of demonstrating the operation of such pressure than through a set of national income and expenditure accounts. And such accounts provide an excellent basis for discussing the alternative ways in which the Government might take action to counter such pressure.

There are, indeed, plenty of ways in which statistics can help in the process of decision-taking. But exaggerated claims for the rôle they can play merely serve to confuse rather than clarify issues of public policy, and lead those responsible for action to oscillate between over-confidence and over-scepticism in using them.

University of Manchester.

ELY DEVONS.

June, 1954.

Statistics : Explanatory Notes

U.S. Recession.—The charts on page 46 are designed to make possible a comparison between recent economic trends in the United States and those during the previous recession of 1948–49. It will be seen that although manufacturing inventories have declined more slowly than in 1948–49, retail sales remain at a high level and industrial production in May showed its first increase since July, 1953. The striking contrast between the two periods is the behaviour of industrial share prices, which in 1949–50 showed no substantial improvement until production was once again on the upgrate.

Gold and Dollar Reserves.—Our gold and dollar reserves continue to rise each month although, as will be seen from the first chart on page 47, we have still regained only two-fifths of the amount lost in the ten months June, 1951, to April, 1952. The last chart compares the annual changes since 1946 in the reserves with those for stocks and work in progress. In 1950, the improvement in our gold reserve was accompanied by some running down of stocks; in 1953, stocks and the gold reserve rose side by side.

The Budget.—The charts on page 48 show that since 1951–52 it has been the growth in the burden of defence that has increased the expenditure side of the budget, civil expenditure having fallen each year. (Some rise is, however, estimated for the current financial year.) As a proportion of national income (gross national product) total government expenditure now represents about 32 per cent., against 41 per cent. in 1947–48 and 21 per cent. before the war.

Market Rates and Prices.—The movements in money market rates and security prices associated with the changes in Bank Rate since 1951 are shown in the charts on page 49. It will be seen that since the middle of 1952 there has been an almost continuous rise in industrial share prices.

Housing.—The appreciable increase over the past two years in the number of new houses and flats completed is brought out in the first two charts on page 50. This has been especially marked in the case of those built for private owners, last year's total being nearly three times that for 1951.

National Income.—Personal consumption of all goods and services taken together was about 6 per cent. more in *volume* last year than in 1948. The largest percentage increase was in private motoring and travel. Food consumption was up by 10 per cent., while the volume of household goods purchased last year was a quarter more than in 1948. From the table it will be seen that out of each pound spent, expenditure on food has on an average increased by 1s. since 1948 and in the last two years has been higher than pre-war. Average expenditure on drink, tobacco and entertainment, in contrast, though it has fallen in recent years, was 1s. more in 1953 than in 1938 while rent, rates, fuel and light accounted for 10d. less.

The lower charts bring out the decline in the volume of fixed capital investment in manufacturing industry and the sharp increase in investment in new housing (see also charts on page 50).

Balance of Payments.—In trade with the dollar area, the overseas sterling area achieved a larger surplus last year, whilst the United Kingdom deficit almost disappeared. Hence the sterling area as a whole achieved a dollar surplus, compared with a large deficit for 1952, while the surplus in trade with non-dollar countries was increased.

European Payments Union.—Although recent months have seen a surplus in our E.P.U. accounts, our debt to the Union still totals £175 millions. With the decision to prolong E.P.U. for another year, however, the U.K. has agreed to withdraw about half to two-thirds of this accumulated debt, part of which is to be funded and the remainder cancelled by gold payments to the principal creditors.

Women at Work.—The proportion of women at work has shown little movement in the past forty years. As regards married women, however, there has been a striking change. In 1951, one in five of all married women was working, while of all women at work two in five were married (second chart). In the age-group 25-54, indeed, it appears that—in May, 1952—nearly two-thirds of those working were married (third chart).

Publications Received

STABILIZING CONSTRUCTION: THE RECORD AND POTENTIAL. By Miles L. Colean and Robinson Newcomb

A Research Study for the Committee for Economic Development.

(McGraw-Hill Book Company, Inc. \$6.00.)

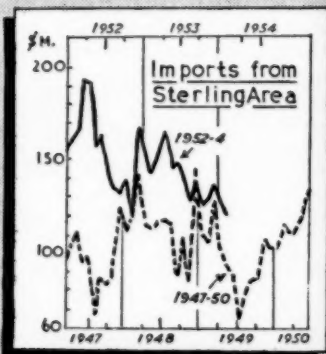
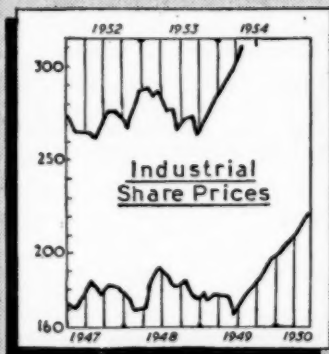
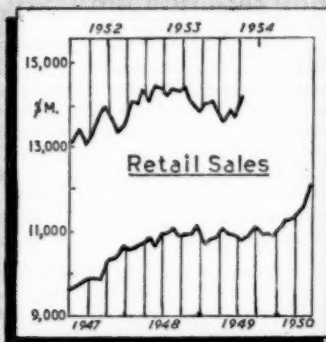
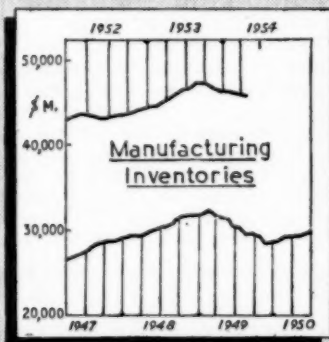
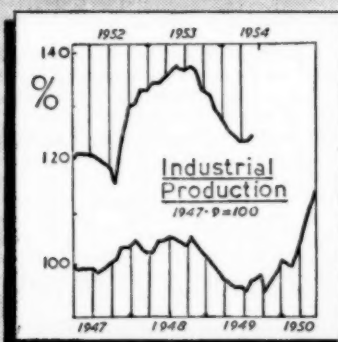
This survey of construction in the United States is particularly concerned with the instability in activity that has been so marked a feature during the period since the first world war. Construction is taken in its widest sense, to include the erection and maintenance not only of houses, farms, offices, factories but also of public utility projects such as highways, airfields or dams. Employing about 5 per cent. of the working population and its output in recent years equivalent to some 12 per cent. of national income, this industry is clearly of great importance in the American economy. But as is brought out in the first part of the book, outlining the history and organization of the many types of construction, its fortunes have been singularly erratic.

In the second part the authors appraise various methods of attaining greater stability. For the industry itself they suggest that "the first line of defence" lies in increased productivity; and for dealing with the repercussions—which have serious effects on the industry—of major economic adjustments they "would place their first and principal reliance upon sound fiscal and monetary measures." As a broad principle, they conclude that in the absence of major dislocations such as those occurring during and after war, the less interference there is with the operation of normal market forces, the better will be the chances of long-run stability.

The authors write clearly, avoid technical jargon, and have packed into a number of appendices a great deal of statistical material bearing on their subject. Yet apparently there are wide gaps. Decisions of profound influence on the future of construction, they assert, "have been made with less accurate information than one would assemble for a day's motor trip."

J. R. W.

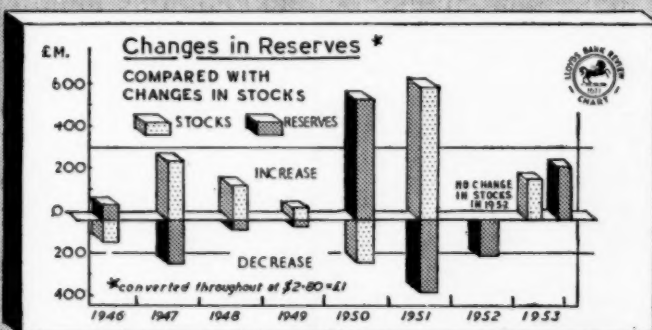
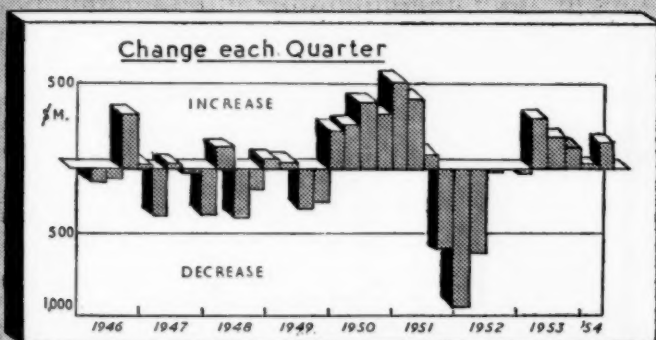
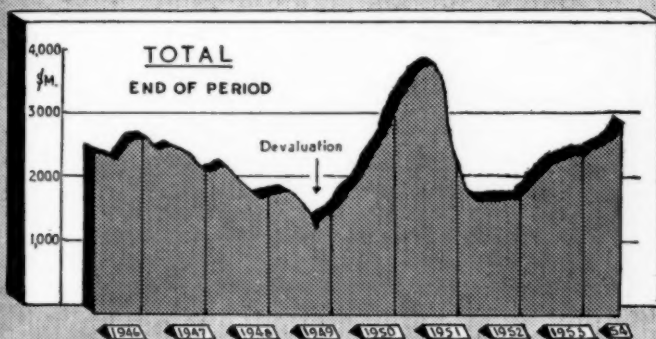
U.S. RECESSION



SOURCE: Survey of Current Business

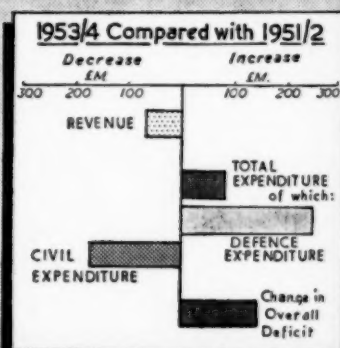
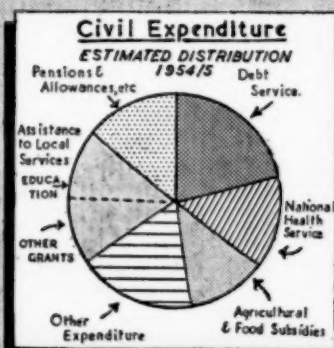
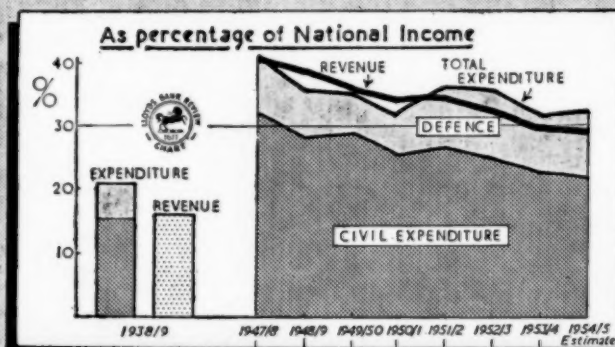
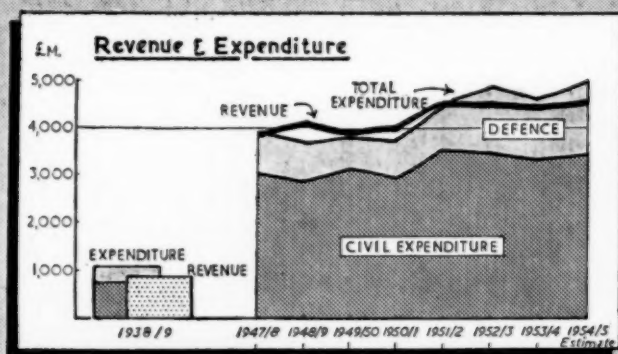
SOURCE

GOLD & DOLLAR RESERVES



SOURCES: Balance of Payments White Papers
National Income publications

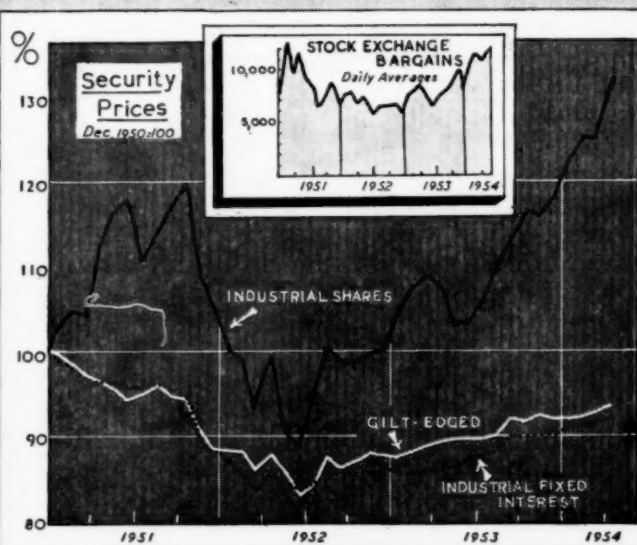
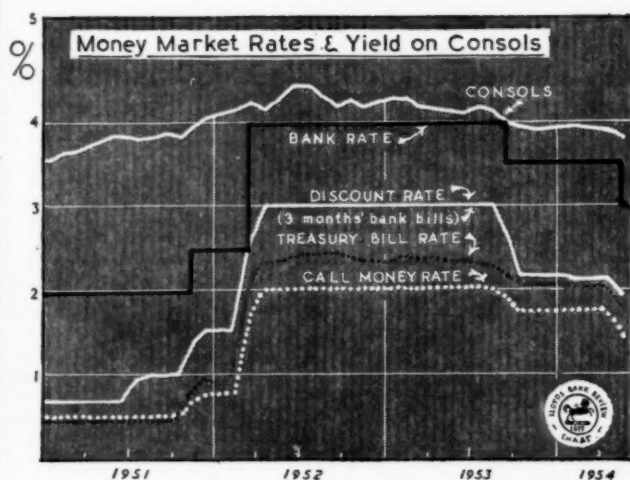
THE BUDGET



SOURCES: Financial Statements
National Income publications

SOURCE

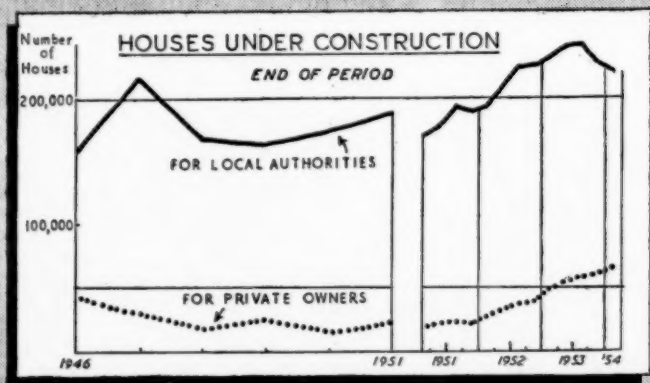
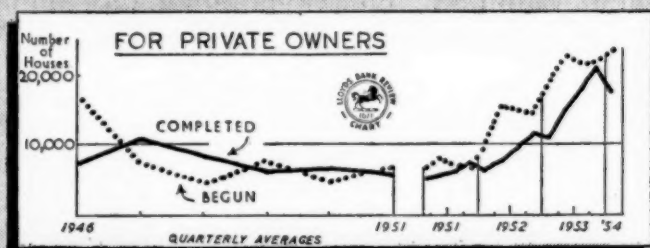
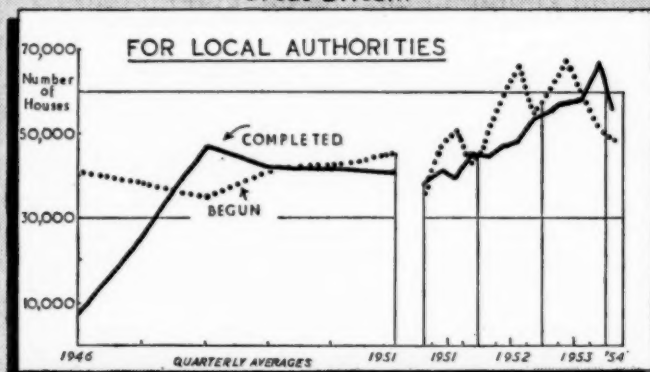
MARKET RATES & PRICES



SOURCES: Investors' Chronicle
Daily press

HOUSING

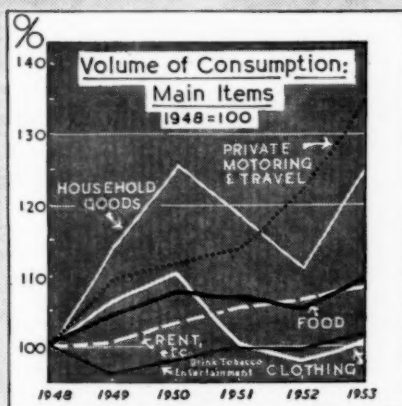
Great Britain



SOURCE: Monthly Digest of Statistics

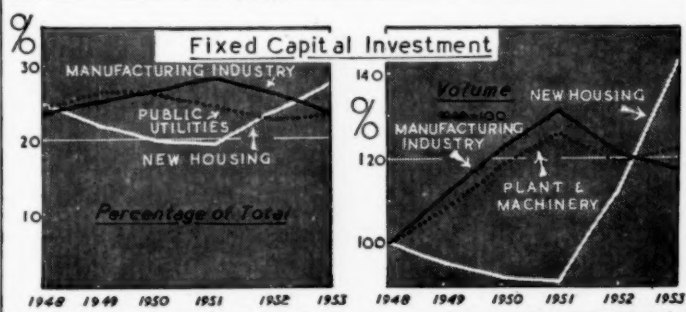
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NATIONAL INCOME



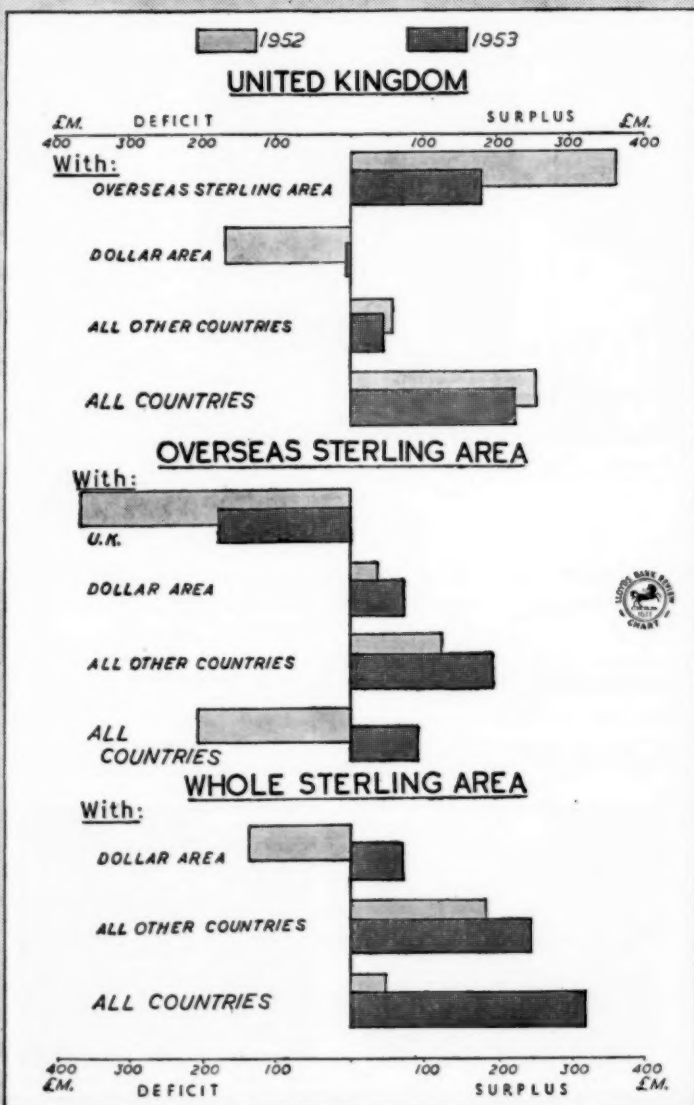
Average Distribution of Consumers' Expenditure per £

	1938	1948	1949	1950	1951	1952	1953
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
Food	6/0	5/5	5/7	5/10	5/11	6/3	6/5
Rent, Rates, Fuel & Light	3/1	2/3	2/3	2/3	2/3	2/3	2/3
Drink, Tobacco, Entertainment	2/5	4/2	3/11	3/9	3/8	3/7	3/5
Clothing	2/0	2/0	2/2	2/2	2/1	1/11	1/10
Household Goods	1/4	1/3	1/4	1/6	1/6	1/4	1/4
Private Motoring & Travel	1/4	1/1	1/2	1/2	1/3	1/4	1/5
Other goods & Services	3/10	3/10	3/7	3/4	3/4	3/4	3/4



SOURCES: Economic Survey, 1954
National Income publications

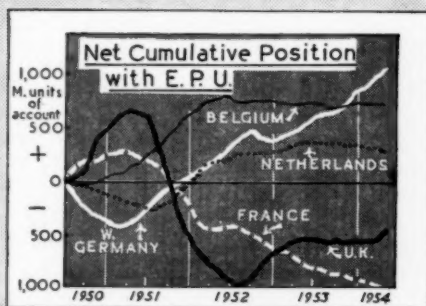
BALANCE OF PAYMENTS



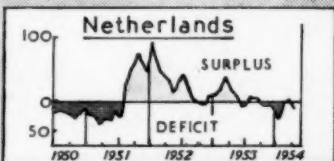
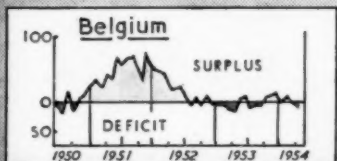
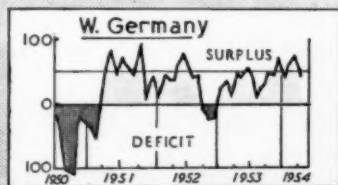
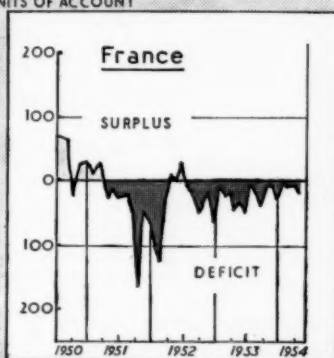
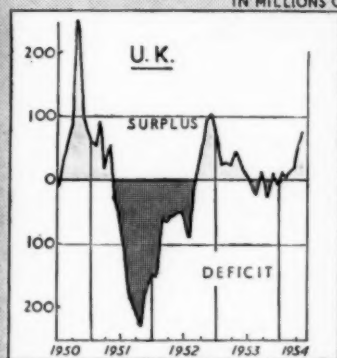
SOURCES: Economic Survey 1954
Balance of Payments White Paper April, 1954

SOURCE

EUROPEAN PAYMENTS UNION



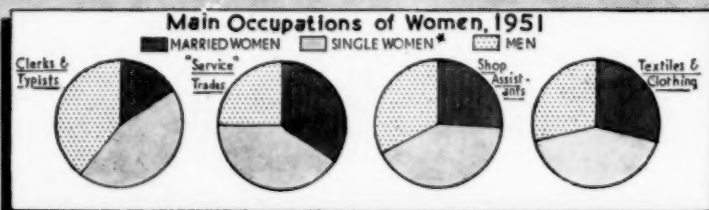
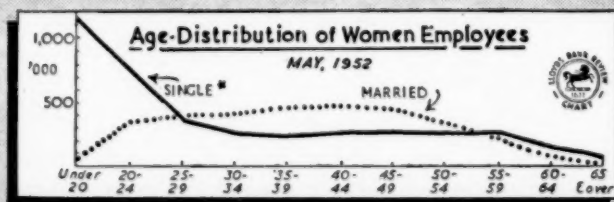
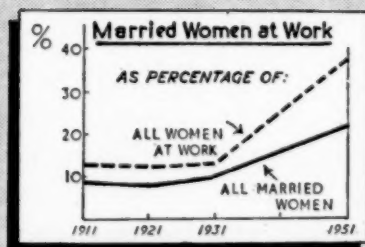
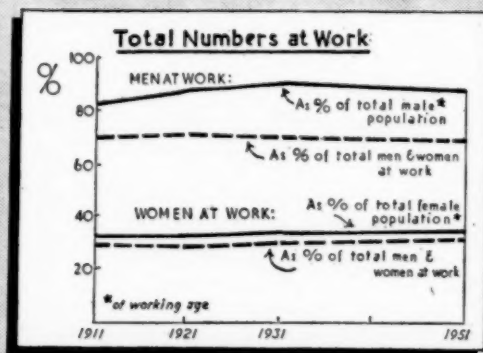
NET MONTHLY POSITIONS IN MILLIONS OF UNITS OF ACCOUNT



SOURCES: Treasury
O.E.C. Statistical Bulletin

NOTE: 1 unit of account is equivalent to 1 US\$

WOMEN AT WORK



SOURCES: Census Returns
Ministry of Labour Gazette

*Including widowed & divorced.
NOTE: All charts refer to Great Britain